

GCE

Specimen Papers with Mark Schemes

**Edexcel Advanced Subsidiary GCE
in Economics (8121)**

First examination 2001

Edexcel Advanced GCE in Economics (9121)

First examination 2002

January 2000

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Mark Schemes

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The GCE awarding bodies have prepared new specifications to incorporate the range of features required by the new GCE subject criteria. The specimen assessment material accompanying the new specifications is provided to give centres a reasonable idea of the general shape and character of the new planned question papers in advance of the first operational examination.

Section A

In this section there are 10 multiple choice questions.

For each question there are four suggested answers; A, B, C and D. When you have selected your answer to the question write the chosen letter against the number of the question in your script.

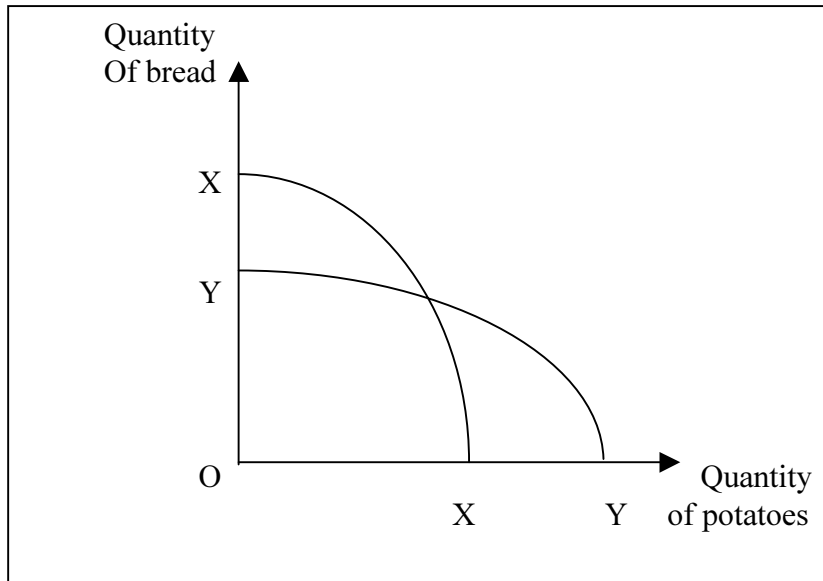
You can only offer one answer to each question.

After marking your selection you should justify your choice with a brief explanation.

You will score **one mark** for each correct answer and a maximum of **three marks** for each justification of your answer.

You are advised to spend approximately 30 minutes on this section.

1)



The production possibility curve for a country moves from XX to YY as shown in the diagram. This is because;

- A) there must be increases in imports of potatoes and exports of bread
- B) there is an increase in employment in the bread industry and a decrease in employment in the potato industry
- C) there is an increase in productivity in the potato industry and a decrease in productivity in the bread industry
- D) consumers change their preferences in favour of potatoes and against bread.

Answer

(1 mark)

Explanation.....

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.....(3 marks)

2) Which of the following is a *positive* economic statement?

- A) Rationing foodstuffs is an unfair method of allocation.
- B) Command economies work better than free market economies.
- C) Prices determined in free markets are fair.
- D) Any economic system needs to determine answers to the questions ‘what?’, ‘how?’ and ‘for whom?’

Answer

(1 mark)

Explanation.....

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.....(3 marks)

3) A mixed economy may be defined as one in which resources are;

- A) allocated to meet the needs of both consumers and producers
- B) used partly for the production of consumer goods and partly for the production of capital goods
- C) allocated partly by market forces and partly by the state
- D) used for the production of both goods and services.

Answer

(1 mark)

Explanation.....

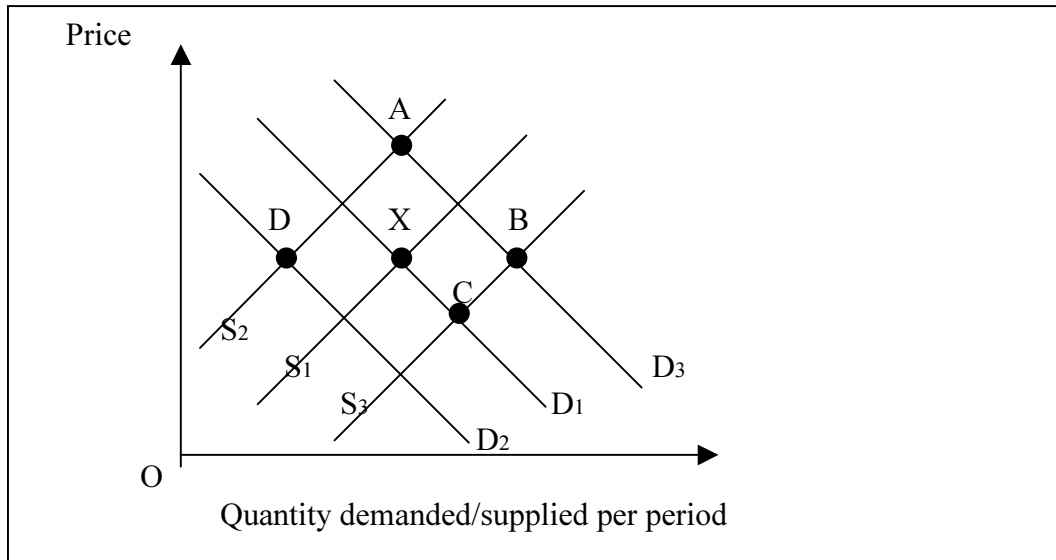
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.....(3 marks)

- 4) The diagram below shows the market for a normal good. The initial equilibrium position is indicated by point X. What will be the new equilibrium position, A,B,C or D, if real income increases and the government gives a subsidy to the producers of the good?



Answer

(1 mark)

Explanation.....

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.....(3 marks)

5) Under which of the following circumstances would an increase in the price of product X result in a fall in the demand for product Y?

- A) The demand for Y is income inelastic.
- B) Y is an inferior good.
- C) X and Y are complementary goods.
- D) X and Y are substitutes.

Answer

(1 mark)

Explanation.....

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.....(3 marks)

6) If the price elasticity of demand for coffee is -0.7 and the cross elasticity of demand between tea and coffee is $+1.1$, then a 10% increase in the price of coffee will cause the quantity demanded of coffee to;

- A) fall by 7% and the demand for tea to fall by 11%
- B) rise by 0.7% and the demand for tea to fall by 1.1%
- C) fall by 0.7% and the demand for tea to fall by 1.1%
- D) fall by 7% and the demand for tea to rise by 11%.

Answer

(1 mark)

Explanation.....

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.....(3 marks)

7) If the income elasticity of demand for a product is +0.3 then;

- A) a fall in real incomes will lead to a proportionately larger fall in demand
- B) a rise in real incomes will lead to a proportionately larger rise in demand
- C) a fall in real incomes will lead to a proportionately smaller fall in demand
- D) a fall in real incomes will cause a rise in price.

Answer

(1 mark)

Explanation.....

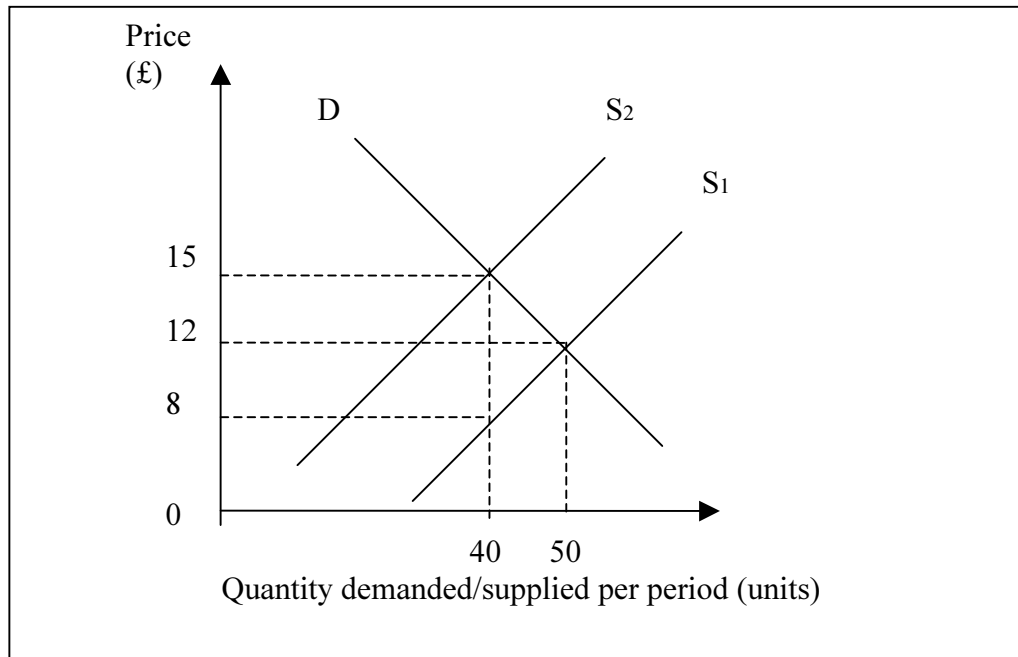
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.....(3 marks)

8)



A government imposes a tax on a good, causing the supply curve to shift from S1 to S2 as shown in the diagram. What part of the total tax burden falls on the producer?

- A) £120
- B) £160
- C) £320
- D) £600

Answer

(1 mark)

Explanation.....

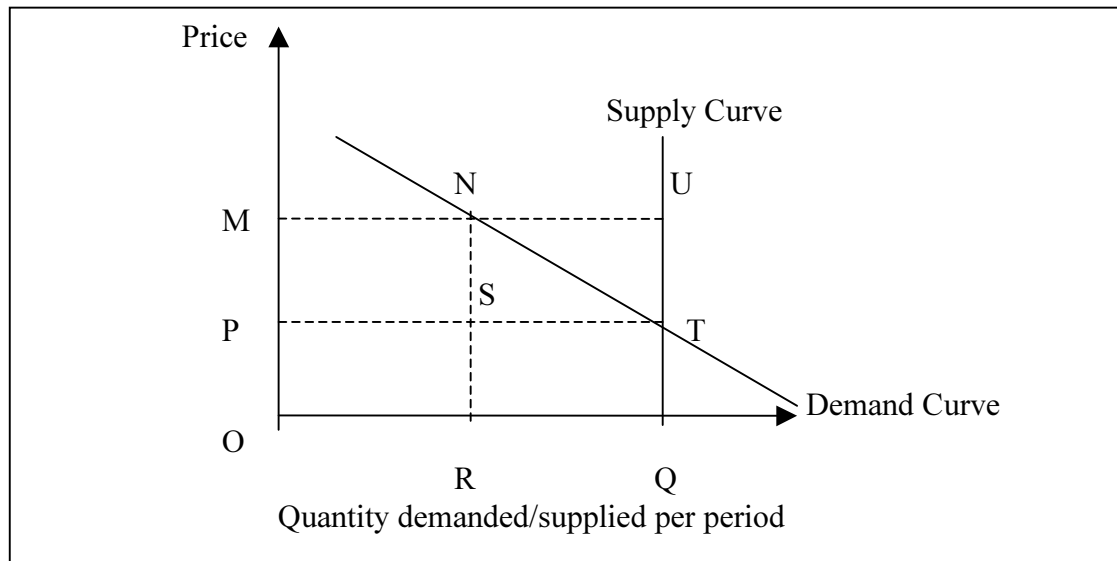
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.....(3 marks)

9)



The diagram above shows the demand and supply curves for an agricultural product. The government currently supports the product's price at OM by intervention buying. If the government then withdraws this support it would reduce its expenditure by;

- A) NUT
- B) NUTS
- C) STQR
- D) NUQR

Answer

(1 mark)

Explanation.....

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.....(3 marks)

- 10) The following data represent demand and supply schedules for commodity X over a given period of time.

Price per unit (£)	Quantity demanded (Units)	Quantity supplied (Units)
80	500	900
70	600	800
60	700	700
50	800	600
40	900	500

If the government now introduces a subsidy of £20 per unit to be paid to the producers of X, the new equilibrium prices will be;

- A) £70
- B) £60
- C) £50
- D) £40

Answer

(1 mark)

Explanation.....

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.....(3 marks)

Section B

Answer EITHER Question 11 OR Question 12.

11.

For the first time since Saddam's tanks rolled into Kuwait in 1990 the price of North Sea Brent crude oil last week broke the level of \$25 a barrel. This is significantly higher than the average \$15 a barrel many analysts were predicting at the start of the year. An oil expert said: "This has been a year of extraordinary development in the oil market and a windfall year for OPEC". The Organisation of Petroleum Exporting Countries accounts for 25 million of the 72 million barrels a day the world consumes. Its members are estimated to have made an additional \$25bn in revenues this year. Economists are beginning to worry about the inflationary pressure exerted by higher oil prices.

UK motorists have already seen petrol – a major derivative of crude – rise several times in the past three months. Price competition between petrol companies has kept the rise to 9% this year, even though crude prices have jumped by 40%. The price of aviation fuel has increased by 30% since the middle of July. As a result, British Airways last week put prices up by 2.5% on European routes and is considering a rise on long-haul routes. There are reports that other airlines are considering introducing plastic cutlery to save weight and fuel.

Production from non-OPEC countries such as Norway and the UK has fallen below expectations. The hurricane that hit Mexico and its oil production facilities last year was also significant. The country lost 40 million barrels – the equivalent of OPEC cutting production by 600,000 barrels a day for six months. But while uncertainty surrounding supply in producer countries is normally to blame for sharp oil price rises, this time the demand side has surprised the industry experts. There was also a colder winter in the northern hemisphere and a much greater thirst for oil from emerging markets.

But the developed world has thrown up its surprises. The rule of thumb for mature economies was that for every percentage point rise in GDP, oil demand went up by between 0.5 and 0.75%. Evidence from the UK and Japan suggests this has increased to 1%.

(Adapted from: A Barnett, 'Surge in oil prices has government over a barrel', in *The Observer*, 20 October 1996.)

- (a) Using evidence from the passage, what can be inferred about the price elasticity of demand for oil? **(2 marks)**
- (b) Evaluate two effects of higher oil prices mentioned in the passage. **(6 marks)**
- (c) Explain why the rise in the price of petrol has been significantly less than the increase in the price of oil. **(3 marks)**

(d) Using a supply and demand diagram, analyse why oil prices rose in 1996. Illustrate your answer with a diagram. **(6 marks)**

(e) What does the passage suggest about the income elasticity of demand for oil? **(3 marks)**

(Total marks for Question 11: 20 marks)

12.

A glut has forced the Potato Marketing Board to spend £5 million buying up surplus potatoes, most of which will be fed to cattle, or ploughed into the ground. Farmers have offered to sell more than 400,000 tons of potatoes at bargain prices. Only large-scale buying of the surplus by the Board has prevented prices from collapsing. The Board has
5 already spent £5 million buying up about 200,000 tons.

Mr Robin Woodhouse, of Norfolk, said: “The price to us this year is 2p a pound but the housewife is still paying 10, 12 or even 15p a pound”. He is feeding a huge pile of potatoes to livestock despite calls that some of the potatoes should be sent to Eastern Europe as food aid. “We feed cattle on potatoes, otherwise the potatoes really would go
10 to waste”.

Some farmers warned that too many potatoes may have been earmarked for destruction and animal food. They pointed out that between 20 and 30 per cent of the national crop is still in the ground because wet weather has prevented growers in the Midlands, parts of East Anglia and other parts of Britain from using their harvesting machines in
15 waterlogged fields. If hard frosts hit these farms over the next two weeks, Britain could face a potato shortage by the end of the year.

Some farmers have said that if the Board has miscalculated its emergency measures, Britain would end up with a potato shortage like that in 1976 when the drought set the price of potatoes soaring. Some farmers were then earning the equivalent of £1,000 a ton
20 at today’s prices because potatoes were so scarce.’

(Source: ‘£5m to buy up potato glut’, *The Daily Telegraph*, 2 November 1992.)

- (a) What does the passage suggest about:
- (i) the price elasticity of demand for potatoes? **(2 marks)**
 - (ii) the price elasticity of supply of potatoes? **(2 marks)**
- (b) Using a supply and demand diagram, analyse how ‘large-scale buying of the surplus by the Board has prevented prices from collapsing’ (lines 3-4). **(6 marks)**
- (c) Evaluate two problems which might arise in making surplus UK potatoes available for consumption in Eastern Europe. **(4 marks)**
- (d) In the absence of a Potato Marketing Board, examine what might be the situation for potato growers and consumers. **(6 marks)**

(Total marks for Question 12: 20 marks)

(Total Marks for Unit 1: 40 marks)

6352

Edexcel GCE

Economics

Unit Test 2 – Markets: why they fail

Advanced Subsidiary / Advanced

Time: 1 hour 15 minutes

Materials required for the examination

AB02
GP02

Items included with these question papers

Nil

Instructions to Candidates

In the boxes on the Answer Book write the name of the Examining Body (Edexcel), your Centre Number, Candidates Number, the subject title, the unit reference (6352), your surname, other names and signature.

The unit reference is shown in the top left-hand corner.

Answer your question in the Answer Book, additional sheets may be used.

Answer ONE question

You are advised to spend the first 10 minutes reading the paper. In calculations you are advised to show all the steps in your working.

Information for Candidates

Marks allocated to parts of questions are indicated in **bold type**.

There are two questions in this paper.

The total mark for this paper is 40.

Advice to Candidates

You must ensure that your answers to parts of questions are clearly numbered.

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, taking account of your use of grammar, punctuation and spelling.

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Turn over

Answer EITHER Question 1 OR Question 2.

Question 1 – Public Transport

1. Some may have judged London ‘the coolest city in the world’ last year but the capital is winning few prizes for the state of its tube network. Gripping about the underground has long been a favourite commuter pastime. But further cuts in government funding and a rush of disturbing accidents raise fears that the network is heading for an all-out collapse.

After a summer of strikes Mr Kenneth Clarke, the chancellor, must have considered London Underground a soft target for spending cuts in this year’s budget. But the public tends to be less concerned by planned stoppages than those which occur by accident. Twice last year power failures brought almost the entire network to a standstill for several hours. Escalators are collapsing, embankments and tunnels are crumbling.

Not all the mishaps can be put down to under-investment. But the visible deterioration in the quality of the system adds weight to the warnings from London Underground and transport pressure groups that the system is approaching breaking point.

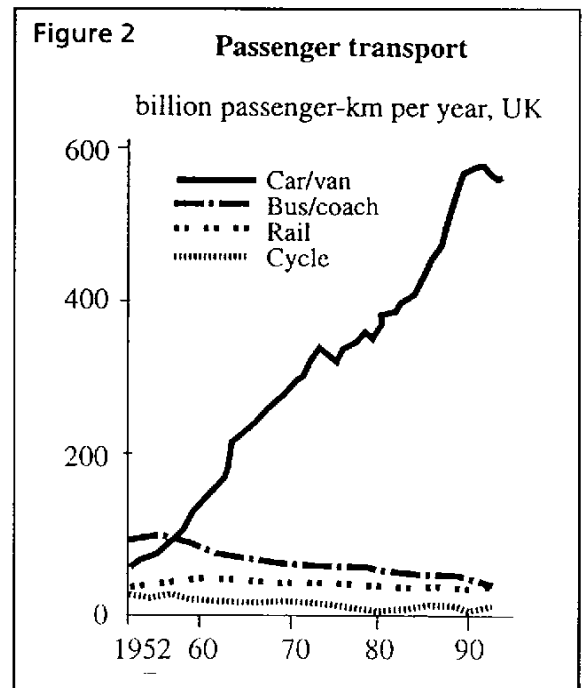
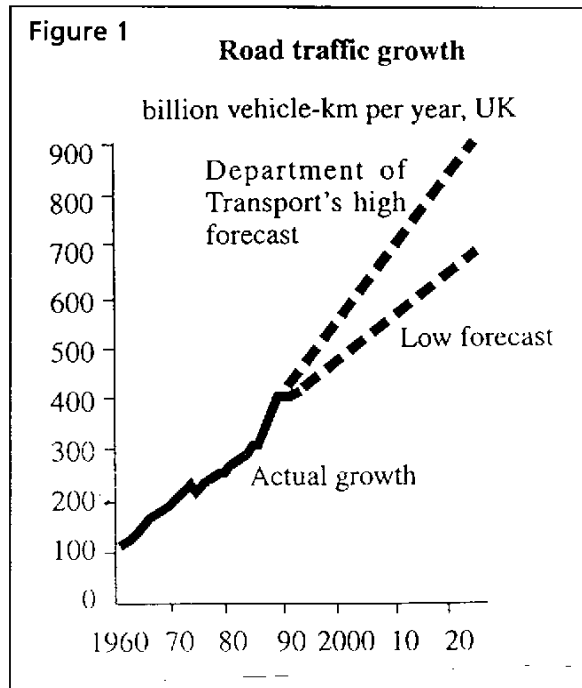
Reversing this year’s cuts, as the grounds demand, might prevent the network deteriorating even further. But the problem goes well beyond a few years’ funding. London First, a consortium of businesses pushing for better transport, calculates that 40 years of under investment have produced a £1.2bn backlog of projects needed to maintain and modernise the system.

The true figure required to give London a half-decent modern underground network may be significantly less than this. But even so, direct funding by government is unlikely to meet much of the shortfall. Nor should it. It would be grossly unfair for the country’s richest region to get a large increase in investment funds at the general taxpayer’s expense. The cost, rather, should be met by the local beneficiaries.

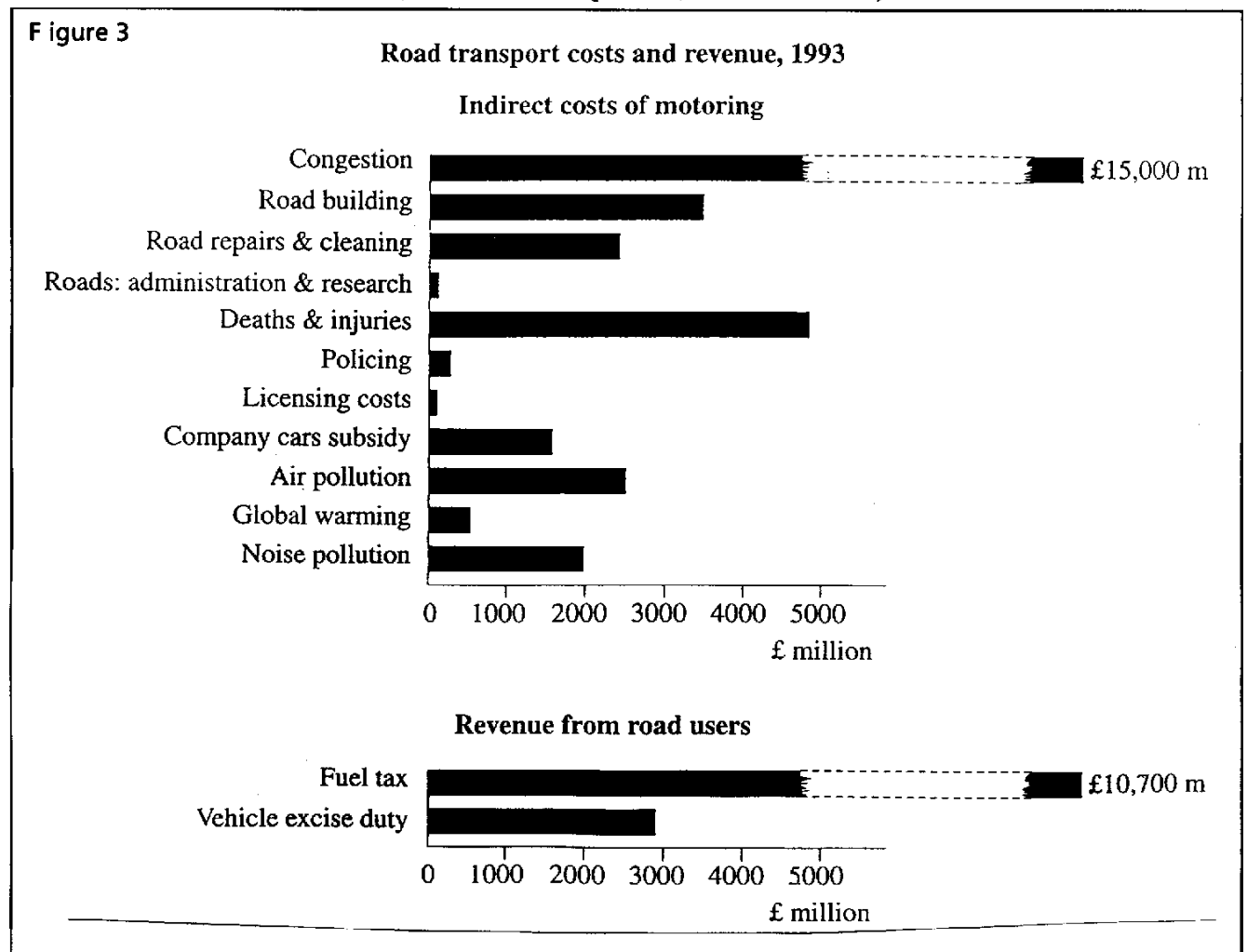
This does not just mean the direct users, who last week had to swallow yet another above-inflation rise in ticket prices. London as a whole – particularly its businesses – would gain from the reduced congestion and higher property values.

One solution would be finally to introduce some form of road-pricing to bring the personal cost of car use within the city closer to the true, social cost.

(Source: ‘Future going underground’, *The Financial Times*, 9 January 1997.)



(Source: The Independent, 27 October 1994)



(Source: The Independent, 26 July 1994)

1. (a) Outline the problems associated with under-investment in the London Underground network. **(2 marks)**
- (b) (i) Define what is meant by the term 'external benefits'. **(2 marks)**
- (ii) Identify *two* external benefits of a modern, efficient underground network in London. **(2 marks)**
- (c) With reference to Figures 1 and 2 and any other relevant information, discuss possible reasons for the growth in road traffic since 1960. **(9 marks)**
- (d) Examine the case for and against the improvements to the London Underground being financed out of general tax revenues. **(7 marks)**
- (e) (i) With reference to figure 3 and to the statement below, examine what is meant by the part of the following statement which is underlined:
- ‘One solution would be to introduce some form of road pricing to bring the personal cost of car use within the city closer to the true, social cost’ (lines 31-32).
- Illustrate your answer with a diagram. **(8 marks)**
- (ii) With reference to the data and other material, examine the case for and against a system of road pricing. **(10 marks)**
-

(Total marks for Question 1: 40 marks)

2.

A New Way of Dealing With Pollution

5 An auction of pollution permits in Chicago yesterday ushered in the most sophisticated, ambitious attempt so far to harness the power of the free market to reduce the negative externality caused by acid rain pollution. The permits are to produce one ton of sulphur dioxide gas – the main cause of acid rain – from a fossil fuel power station. From 1995, if any of the 110 most polluting power stations in the USA produces more pollution in a year than it has permits for, it will face large fines.

10 The supporters of the new system claim that it will work “with” rather than “against” the market. The central idea is that the market, rather than a government regulator, is best at working out the most cost-effective way of bringing down pollution. The owners of power stations can trade permits: those facing the highest costs in curbing sulphur emissions will buy; those that can clean up their act relatively cheaply will sell.

15 Fresh permits will be issued each year, but the numbers will decline to a level that halves sulphur dioxide emissions early in the next century. The new system of pollution control does not come into force until 1995, but the permits have begun to be issued and trading is underway.

20 The auctions are intended to encourage intermediaries to come in and establish an open market price rather than allow the utilities to sew things up among themselves. The auctions are also intended to allow new entrants – companies that want to run fossil fuel power stations – to buy the permits they will require. The new system should increase flexibility: fossil fuel power stations can choose between installing expensive equipment to reduce sulphur dioxide emissions, switching to cleaner fuels, or continuing to pollute and buying allowances or permits to pollute on the market.

25

(Adapted from: Nicholas Schoon ‘Pollution permits make a market’, in *The Independent*, 30 March 1993.)

Figure 1
Emissions: the case for curbing air pollution.

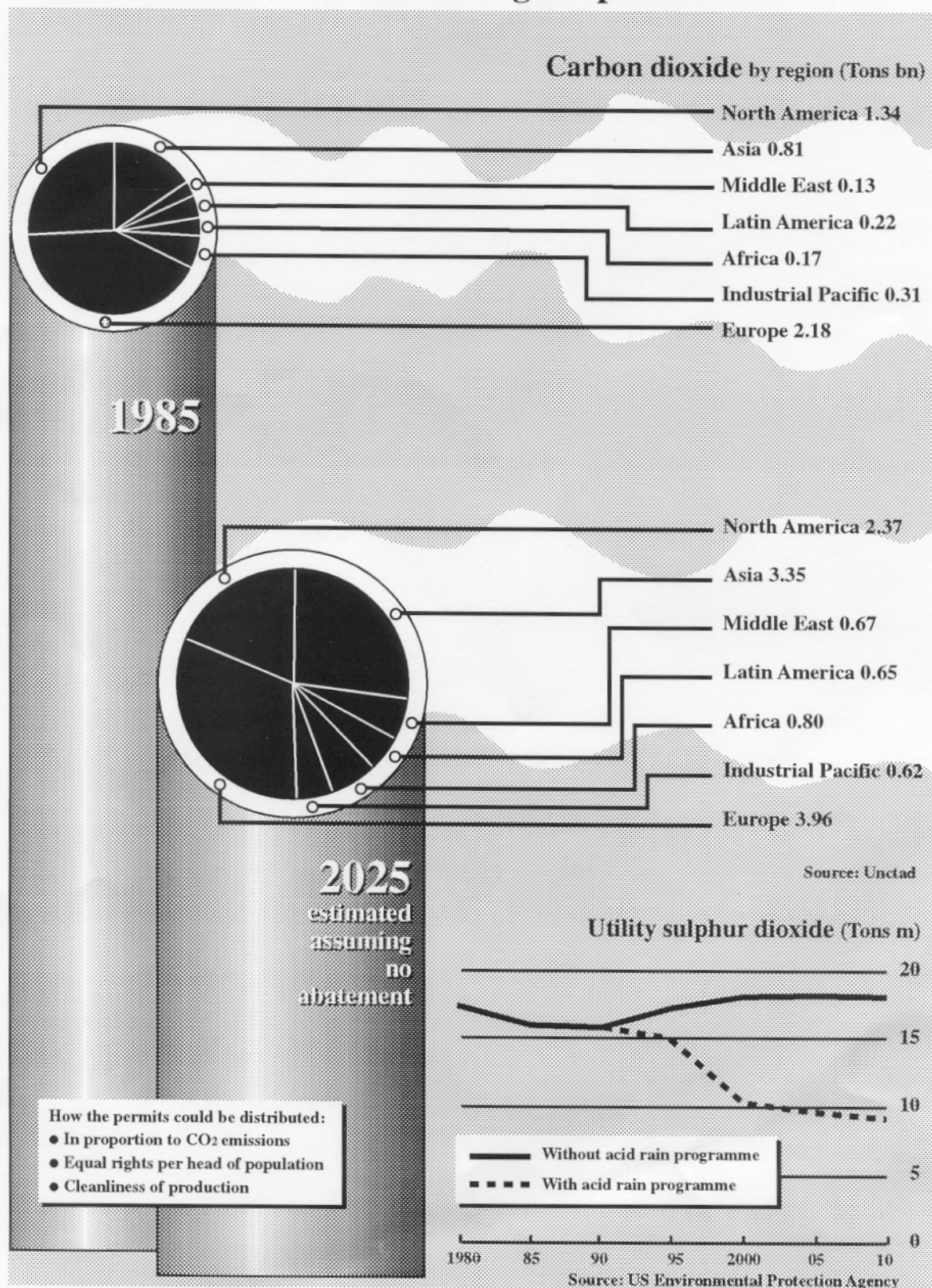
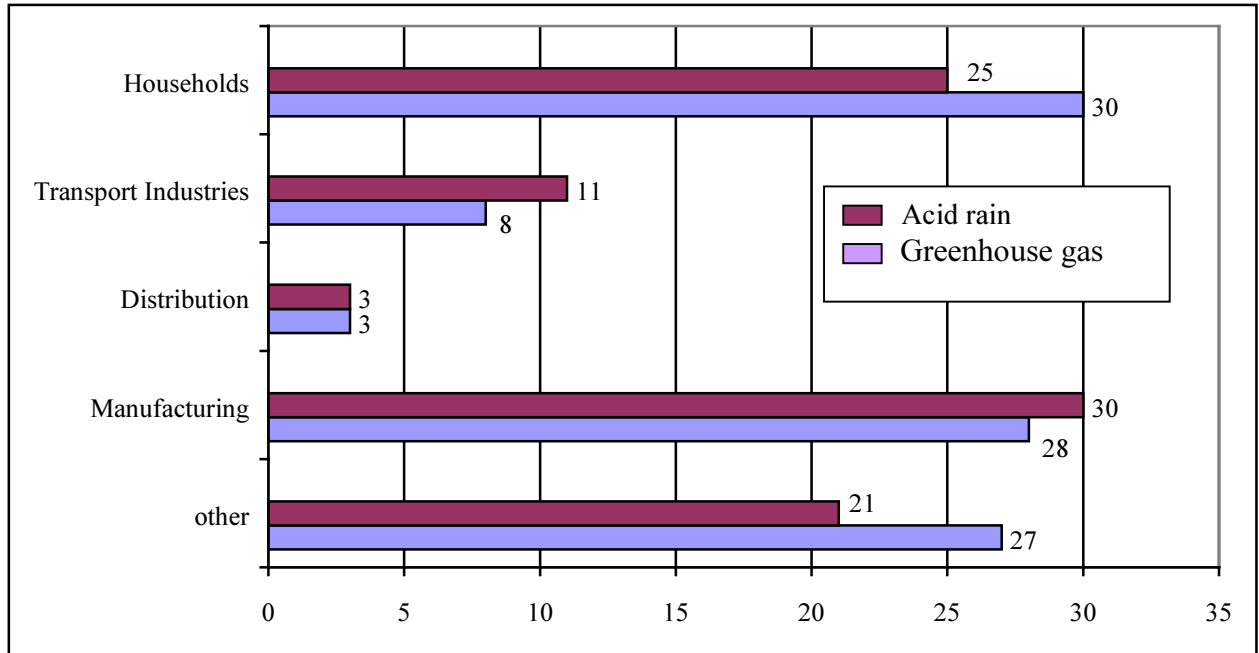


Figure 2

**Atmospheric Emissions
(% of UK total)**



(Source : *Office of National Statistics*)

2. (a) With reference to Figure 1, calculate:
- (i) the amount by which carbon dioxide emissions are expected to rise. **(2 marks)**
 - (ii) the area of the world which is expected to experience the greatest proportionate increase in carbon dioxide emissions. **(2marks)**
- (b) (i) What is meant by the term ‘external costs’? **(2 marks)**
- (ii) With reference to examples explain why carbon dioxide and sulphur emissions are external costs. **(6 marks)**
- (c) Explain how granting power stations ‘permits to pollute’ can work ‘with rather than against’ the market. Illustrate your answer with a diagram. **(8 marks)**
- (d) Examine the advantages and disadvantages of reducing pollution through trading pollution permits. **(10 marks)**
- (e) Examine *two* other methods which might be used to reduce pollution from acid rain and greenhouse gases. **(10 marks)**
-

(Total marks for Question 2: 40 marks)

(Total marks for Unit 2: 40 marks)

6353

Edexcel GCE

Economics

Unit Test 3 – Managing the Economy

Advanced Subsidiary / Advanced

Time: 1 hour 45 minutes

Materials required for the examination

AB02
GP02

Items included with these question papers

Nil

Instructions to Candidates

In the boxes on the Answer Book write the name of the Examining Body (Edexcel), your Centre Number, Candidates Number, the subject title, the unit reference (6353), your surname, other names and signature.

The unit reference is shown in the top left-hand corner.

Answer your questions in the Answer Book, additional sheets may be used.

Answer TWO questions, choosing ONE question from Section A and ONE question from Section B.

You are advised to spend the first 5 minutes reading the paper. In calculations you are advised to show all the steps in your working.

Information for Candidates

Marks allocated to parts of questions are indicated in **bold type**.

There are four questions in this paper.

The total mark for this paper is 60.

Advice to Candidates

You must ensure that your answers to parts of questions are clearly numbered.

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, taking account of your use of grammar, punctuation and spelling.

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Turn over

Section A

Answer ONE question from this section.

(You should spend approximately 50 minutes on the question attempted)

1. (a) Explain what is meant by the term “aggregate demand” and identify its main components. **(5 marks)**
 - (b) Outline the effect of each of the following on aggregate demand:
 - (i) a decrease in the standard rate of income tax from 24% to 22%
 - (ii) imports rising at a faster rate than exports. **(10 marks)**
 - (c) Using aggregate demand and supply analysis, explain and assess the possible economic effects of foreign inward investment by the firm LG in a new factory in the UK, on real output and employment. **(15 marks)**
-

OR

2. (a) What are the main objectives of macroeconomic policy? **(5 marks)**
 - (b) Which *two* objectives do you consider to be most important for the UK government to pursue at the start of the twenty first century? Justify your answer. **(10 marks)**
 - (c) Assess how these objectives might conflict with each other and with other macroeconomic goals. **(15 marks)**
-

(Total for Section A: 30 marks)

Section B

Answer ONE question from this section.

(You should spend approximately 50 minutes on the question attempted)

3. The following table shows the expenditure-based measure of GDP in the UK for the period 1989 to 1996.

UK gross domestic product: by category of expenditure (£m at constant 1990 prices)

Year	Consumers expenditure	General government final consumption	Gross domestic fixed capital information	Increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Expenditure taxes minus subsidies	Statistical discrepancy	GDP at factor cost
1989	345406	110139	111470	2704	126836	147615	72712		476228
1990	347527	112934	107577	-1800	133165	148285	72232		478886
1991	340037	115845	97403	-4631	132252	140598	71395		468913
1992	339652	115732	95973	-1699	137693	149903	70992		466456
1993	348015	115632	96586	312	142451	154409	71822		476765
1994	356914	117550	99417	2917	155566	162731	73913		495720
1995	363810	119331	99306	3258	168063	169835	75767	-114	508052
1996	374811	120333	100324	1946	178688	183046	76279	3237	520014

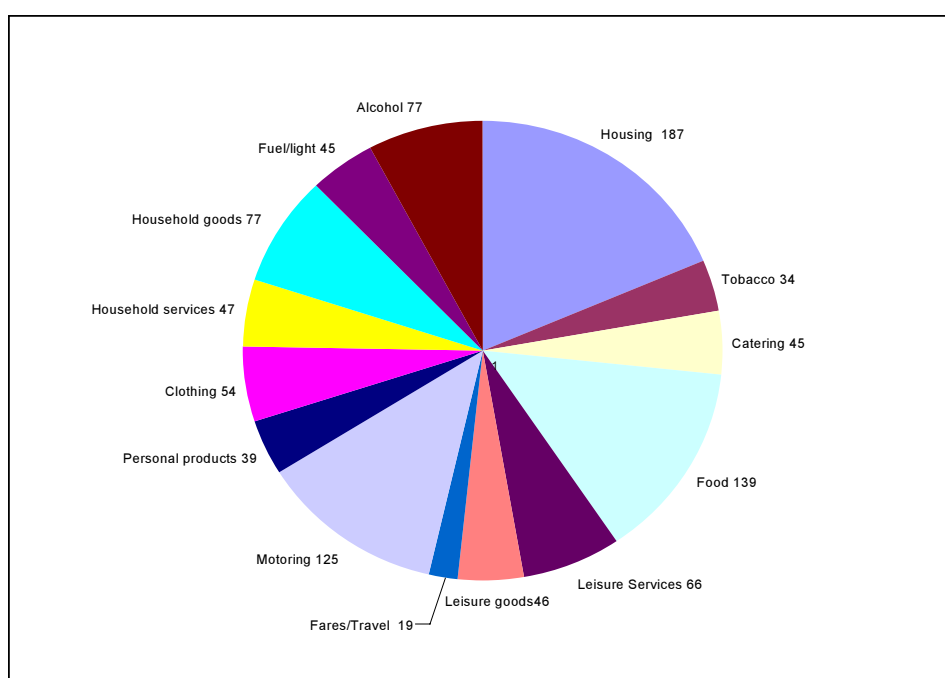
- (a) Explain what is meant by each of the following:
- (i) gross domestic product **(2 marks)**
 - (ii) 'constant 1990 prices'. **(2 marks)**
- (b) (i) What does the data suggest about the state of the economy in the periods 1990-92 and 1993-96? **(6 marks)**
- (ii) Suggest *two* further pieces of information which you would need to make a more complete assessment of the state of the economy in these periods. Justify your selection. **(4 marks)**
- (c) (i) Describe the changes in the current account of the Balance of Payments between 1989 and 1996. **(4 marks)**
- (ii) How might these changes be explained? **(6 marks)**
- (d) (i) Calculate the proportion of GDP accounted for by gross domestic fixed capital formation in 1989 and 1996. **(2 marks)**
- (ii) What is the economic significance of this change for living standards? **(4 marks)**

OR

4. Figure 1 shows the weights used in compiling the Retail Price Index in 1995.

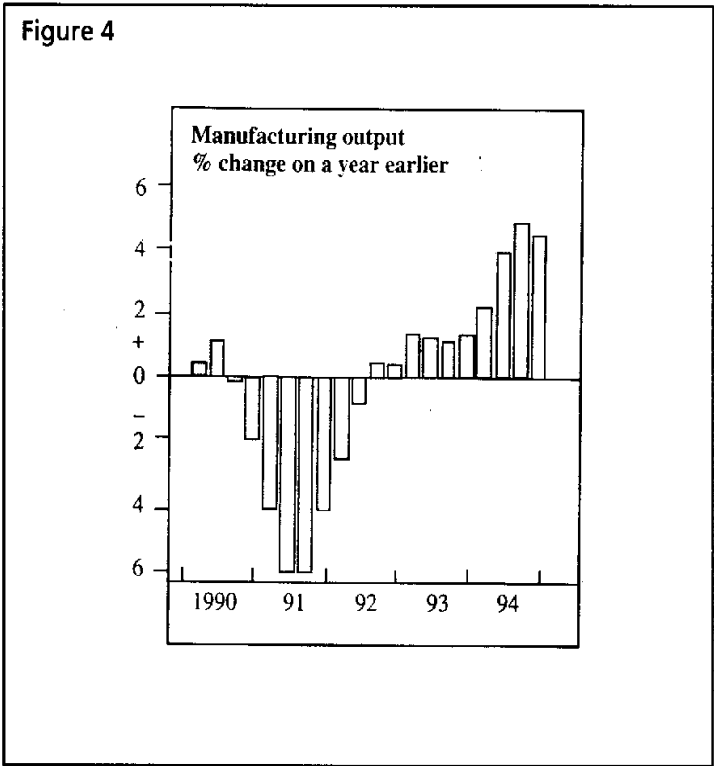
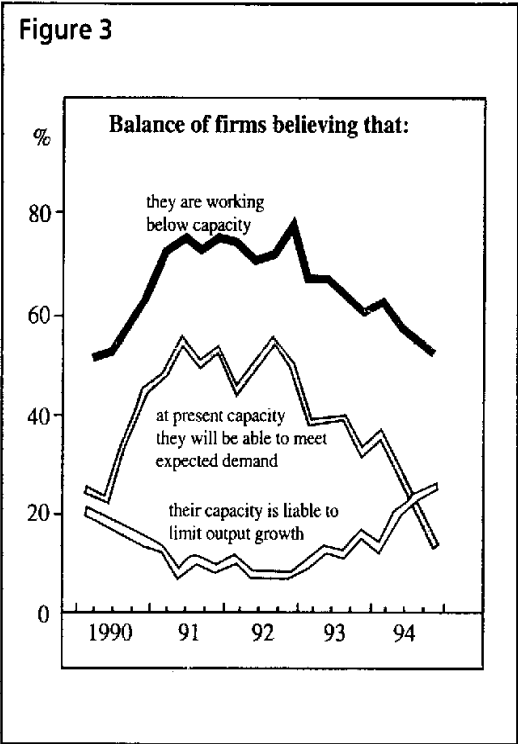
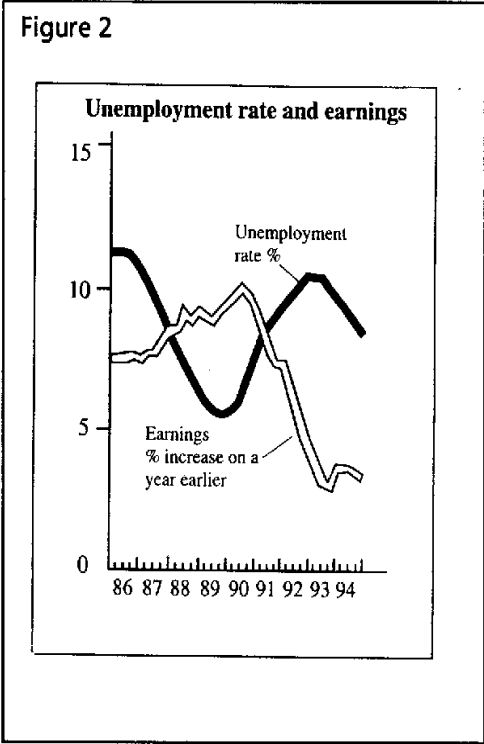
Figure 1

**UK Retail Price Index, 1995
Weightings (total = 1000)**



(Source: *Labour Market Trends*, HMSO)

(See photocopied evidence)



(Sources: The Economist, 14 January, 28 January, 15 April, 1995)

4. (a) With reference to Figure 1, explain how these weights are determined. **(3 marks)**

(b) With reference to Figure 1, how might the weights for the following categories of spending have changed in their relative importance over the decade since 1986?

- (i) tobacco
- (ii) clothing

Justify your answers.

(6 marks)

(c) (i) With reference to Figures 2, 3 and 4, describe the changes in the state of the UK economy between 1990 and 1994. **(4 marks)**

(ii) Examine *one* other economic indicator which could help you make a more accurate assessment of the state of the UK economy in 1994. **(4 marks)**

(d) (i) Explain the relationship which you would expect to find between the rate of unemployment and the annual percentage increase in earnings. **(4 marks)**

(iii) To what extent does the data in Figure 2 illustrate this relationship? **(3 marks)**

(e) In early 1995 the UK government considered raising interest rates. Using the data and other relevant information, examine the case for and against raising interest rates at the time. **(6 marks)**

(Total for Section B: 30 marks)

(Total marks for Unit 3: 60 marks)

Section A

In this section there are 10 multiple choice questions.

For each question there are five suggested answers; A, B, C, D and E. When you have selected your answer to the question write the chosen letter against the number of the question in your script.

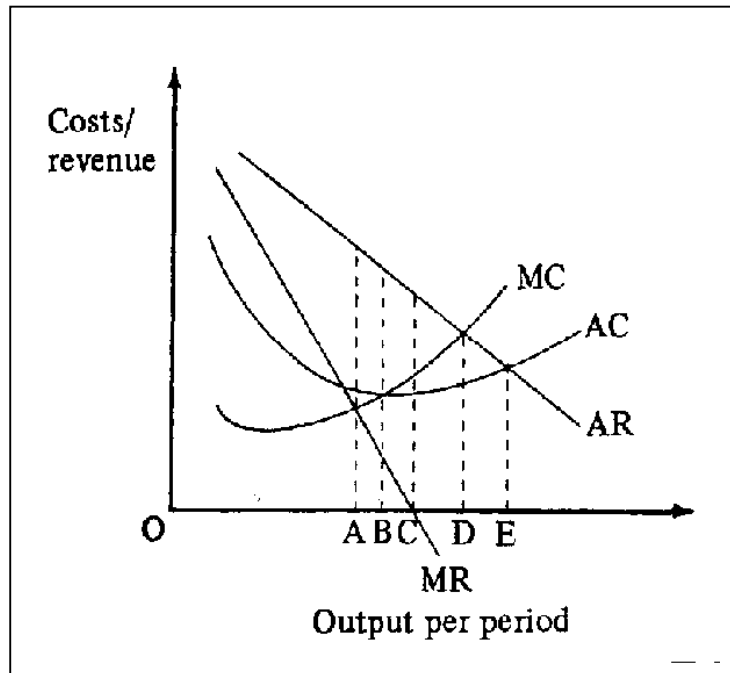
You can only offer one answer to each question.

After making your selection you should justify your choice with an explanation.

You will score **one mark** for each correct answer and a maximum of **three marks** for each justification of your answer.

You are advised to spend approximately 30 minutes on this section.

1)



The diagram shows the cost and revenue functions of a monopolist. At which output level will the price elasticity of demand be unity?

- A) OA
- B) OB
- C) OC
- D) OD
- E) OE

Answer

(1 mark)

Explanation.....

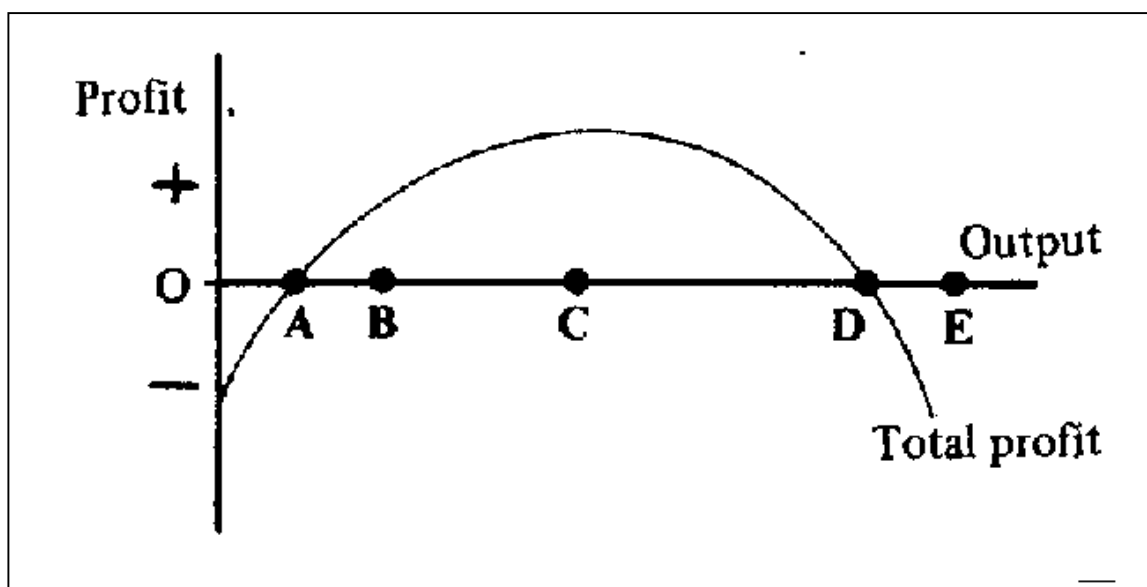
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.....(3 marks)

- 2) The profit of a firm at different levels of output is illustrated below. At which level of output (A-E) is marginal revenue equal to marginal cost?



Answer

(1 mark)

Explanation.....

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.....(3 marks)

3) The combination of branding, non-price competition and barriers to entry is characteristic of which of the following market structures?

- A) Perfect competition
- B) Monopoly
- C) Monopolistic competition
- D) Oligopoly
- E) Public goods markets

Answer (1 mark)

Explanation.....
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.....(3 marks)

4) If a discriminating monopolist is to gain most from charging different prices in two different markets for the same product, it is necessary that;

- A) the lowest price charged covers the average cost of the goods produced
- B) the two markets are geographically separate
- C) the price elasticity of demand is the same in both markets
- D) there is no possibility of re-sale of the good by purchasers in the other
- E) the firm is a price taker.

Answer

(1 mark)

Explanation.....

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.....(3 marks)

5) In the short run, even if average revenue is less than average cost, it will pay a firm to continue in business so long as average revenue is greater than;

- A) average fixed cost
- B) marginal cost
- C) average variable cost
- D) variable costs plus fixed costs
- E) marginal revenue.

Answer (1 mark)

Explanation.....
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.....(3 marks)

6) Which of the following would threaten the long run success of a producer cartel?

- A) Non-members of the cartel produce insignificant levels of output.
- B) The cartel produces a homogeneous product.
- C) Legislation against anti-competitive practices is ineffective.
- D) Barriers to entry are relatively low.
- E) The demand for the cartel's product is price inelastic and rising.

Answer

(1 mark)

Explanation.....

.....

.....

.....

.....(3 marks)

- 7) Firm X sells its product in a perfectly competitive market, Firm Y operates in an oligopolistic market in which there are many competing brands, and Firm Z is a pure monopoly. Which of the following descriptions of these products is correct?

Products supplied by:

	<i>Firm X</i>	<i>Firm Y</i>	<i>Firm Z</i>
A	Differentiated	Differentiated	Unique
B	Unique	Differentiated	Differentiated
C	Identical	Differentiated	Unique
D	Unique	Unique	Differentiated
E	Identical	Unique	Differentiated

Answer

(1 mark)

Explanation.....

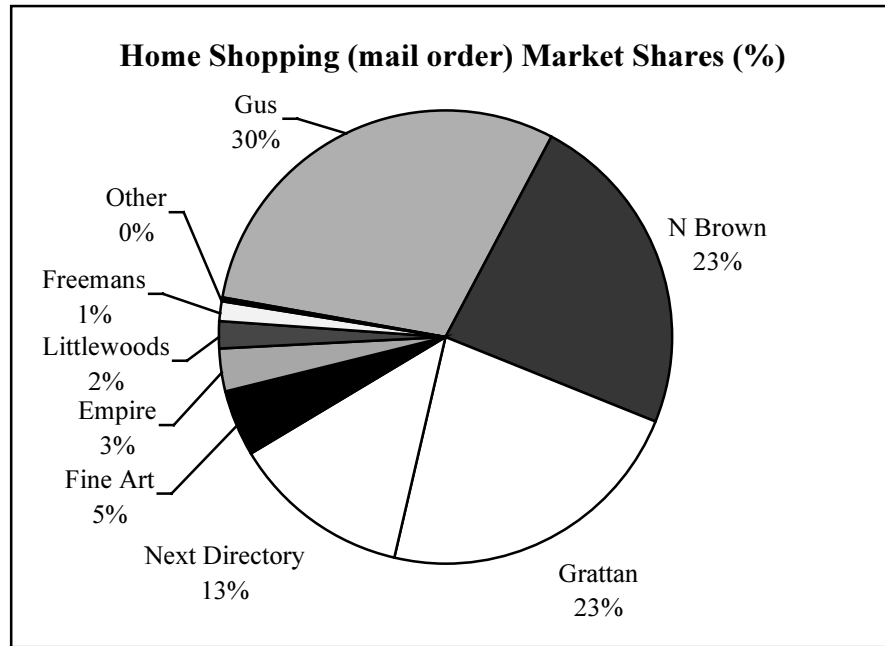
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.....**(3 marks)**

8)



From the chart it can be deduced that;

- A) the products sold by the firms will be homogeneous
- B) the market is monopolistic because less than 75% of the market is supplied by a large number of small firms
- C) consumers will have perfect knowledge of the products being sold
- D) the firms will be unable to influence the price which they charge for their products
- E) the pricing and output decisions made by one of the largest three firms will have an effect on the prices and outputs of the other firms.

Answer

(1 mark)

Explanation.....

.....

.....

.....

.....(3 marks)

9) It is reported that there is a potential new entrant into an oligopolistic market. Which of the following measures seems likely to increase the possibility of the new firm entering the industry?

- A) The existing firms advertise their products more heavily.
- B) Existing firms lower their prices.
- C) Patent rights on a process vital to the industry continue to exist for ten years.
- D) Existing firms raise their prices.
- E) The government imposes tight environmental regulations on the industry.

Answer

(1 mark)

Explanation.....

.....

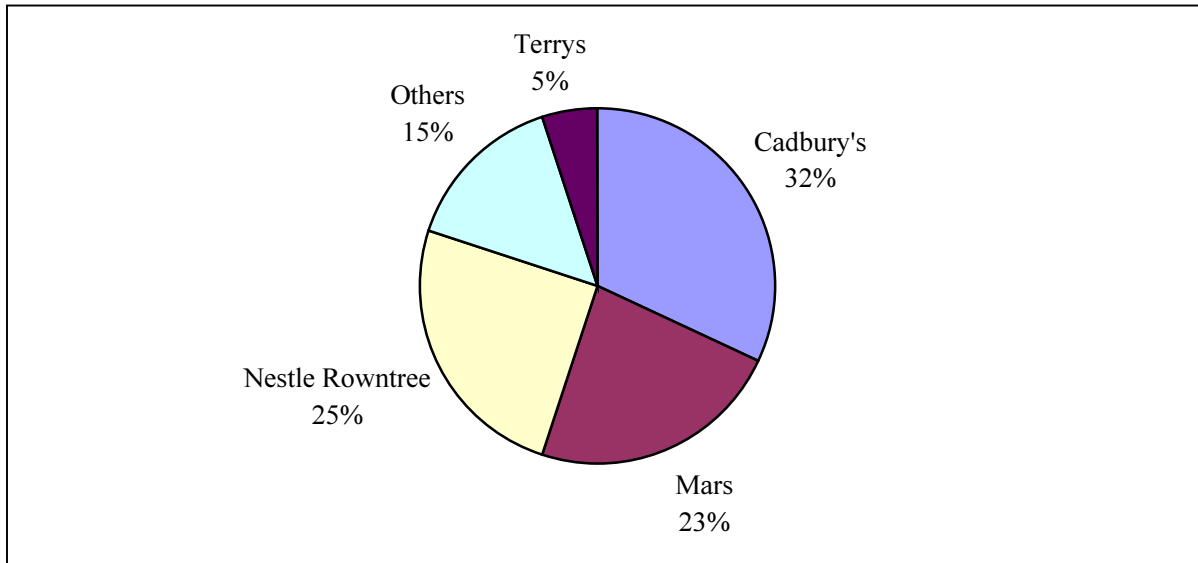
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.....(3 marks)

10)

The UK Chocolate Market Split by Company
[Total UK chocolate market = £2.95bn]



According to the data, which of the following statements relating to the UK chocolate market is correct?

- A) The products are homogeneous.
- B) The cross elasticity of demand between the products of Cadbury and Mars is likely to be negative.
- C) The firms are price takers.
- D) The share held by Mars of the total UK chocolate market exceeds £1 billion.
- E) There is three-firm concentration ratio of 80%.

Answer

(1 mark)

Explanation.....

.....

.....

.....

.....(3 marks)

Section B

Answer EITHER Question 11 OR Question 12 from this section

(You should spend approximately 35 minutes on this section)

11.

Table 1

National Newspaper Circulation In The UK

Title of Newspaper	Owned By	Daily Circulation		
		1992	1993	1994
Sun	News Corporation	3,588,077	3,513,591	4,007,520
Daily Mirror	Headington Investment	2,868,263	2,676,015	2,484,436
Daily Mail	Daily Mail	1,688,808	1,769,253	1,784,030
Daily Express	United Newspapers	1,537,726	1,490,323	1,369,266
Daily Telegraph	Ravelston Corporation	1,043,703	1,024,340	1,007,944
Daily Star	United Newspapers	808,486	773,908	746,412
Today	News Corporation	495,405	533,332	579,110
Guardian	Guardian Newspapers	418,026	416,207	400,399
Times	News Corporation	390,323	368,219	471,847
Independent	Newspaper Publishing	376,532	348,692	284,440
Financial Times	Pearson	291,915	290,139	296,984
		13,507,264	13,204,019	13,433,188

Table 2

UK Newspaper Price Changes

The prices of the following newspapers were reduced in early 1993:

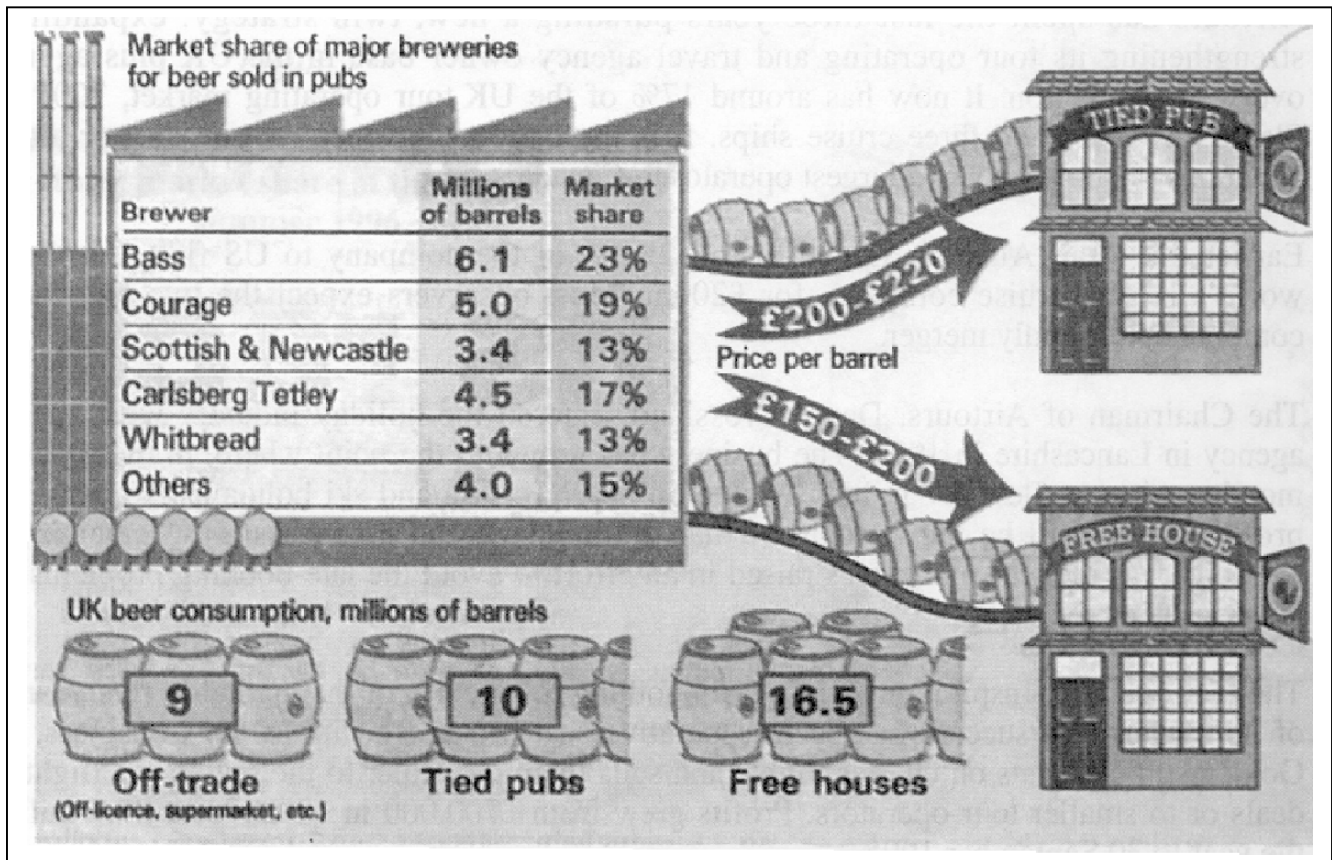
	Old Price	New Price
SUN	25 pence	20 pence
TIMES	45 pence	20 pence
TELEGRAPH	48 pence	30 pence

- (a) With reference to Table 1, comment on the view that News Corporation was a monopoly in the market for national daily newspapers in 1994. **(5 marks)**
- (b) Discuss **two** reasons why some newspaper companies publish more than one newspaper title. **(6 marks)**
- (c) Some of the other newspaper publishers considered that the price reductions announced by News Corporation for the Sun and The Times were an example of predatory pricing.
- (i) Analyse the meaning of the term ‘predatory pricing’. **(5 marks)**
- (ii) Examine **three** reasons which might explain why News Corporation embarked on such a pricing policy. **(9 marks)**
- (d) To what extent might newspaper publishing be regarded as a contestable market? **(9 marks)**
- (e) In the UK newspaper publishers are prevented from controlling domestic independent television companies. Why might newspaper publishers seek to expand into other media? **(6 marks)**

(Total marks for Question 11: 40 marks)

12.

The UK Brewing Industry



The price of a pint of beer

Retail price	£1.44
Pub profit	£0.21
Pub costs	£0.27
VAT	£0.26
Wholesale price of which:	
Duty	£0.24
Brewer's profit	£0.06
Corporate overhead	£0.03
Advertising/Marketing	£0.05
Distribution	£0.15
Labour	£0.11
Raw materials	£0.06

(Source: *The Mail on Sunday*, 19 February 1995.)

‘Since a recent judgement by the Monopolies and Mergers Commission, major brewing companies such as Bass and Whitbread have had to sell a number of the public houses that they owned; these are called tied pubs. No single brewer can now own more than 2,000 public houses. There are now many more ‘free houses’ which can buy their beer from any brewer they wish.’

(Source: *The Mail on Sunday*, 19 February 1995.)

- (a) (i) Using the above information, calculate the five-firm concentration ratio in the UK brewing industry. **(4 marks)**
- (ii) What does this suggest about the market structure in this industry? **(4 marks)**
- (b) (i) What type of integration is illustrated in the following circumstances:
1. a merger of Bass and Carlsberg Tetley;
 2. brewers which own public houses? **(5 marks)**
- (ii) Evaluate the economic implications for both consumers and producers of beer of the ownership of public houses by brewing companies. **(10 marks)**

(c) *Number of brewing companies in the UK*

1970	96
1975	82
1980	81
1985	73
1990	65
1995	64

(Source: *Brewer and Licensed Retailers Association, Statistical Handbook*, 1996.)

- (i) With reference to the table, how might you explain the changing number of brewing companies in the period shown? **(8 marks)**
- (ii) Critically examine the factors which might account for the continued existence of many small brewing companies in the UK? **(9 marks)**

(Total marks for Question 12: 40 marks)

(Total marks for Unit 4: 80 marks)

6355

Edexcel GCE

Economics

Unit Test 5 – Economic Development **OR** Labour Markets

Advanced

Time: 1 hour 15 minutes (Plus 15 minutes reading time)

Materials required for the examination

AB02
GP02

Items included with these question papers

Nil

Instructions to Candidates

In the boxes on the Answer Book write the name of the Examining Body (Edexcel), your Centre Number, Candidates Number, the subject title, the unit reference (6355), your surname, other names and signature.

The unit reference is shown in the top left-hand corner.

Answer your question in the Answer Book, additional sheets may be used.

Section A contains questions on the Labour Market Option.

Section B contains questions on the Economic Development Option.

Candidates should attempt the Options for which they have been prepared, choosing ONE question from Section A (Labour Markets) OR Section B (Economic Development).

Information for Candidates

Marks allocated to parts of questions are indicated in **bold type**.

There are four questions in this paper.

The total mark for this paper is 60.

Advice to Candidates

You must ensure that your answers to parts of questions are clearly numbered.

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, taking account of your use of grammar, punctuation and spelling.

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Edexcel
Success through qualifications

Turn over

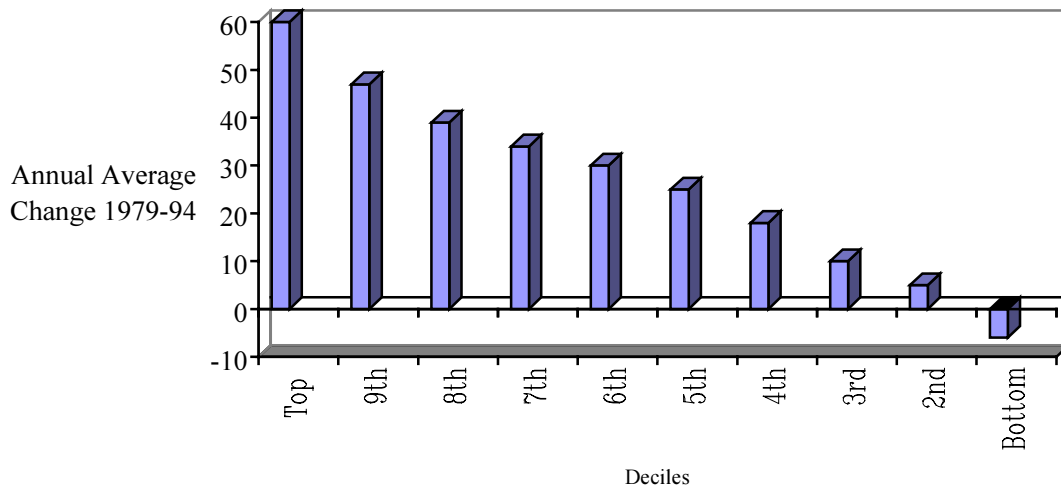
Section A – Labour Markets Option

Answer EITHER Question 1 OR Question 2

1.

INEQUALITY

Disposable Income



What is poverty? For Labour, the fact that the lower quarter or so of earners are becoming worse off compared with others means that poverty is increasing. The party points to the fact that the number of people in households earning less than half the average income – a common European definition of poverty – has increased from less than 5million in 1979 to some 14million now. The Tories, they charge, have therefore pitched 9million more people into the ranks of the poor.

Nonsense, say the Conservatives. Relative definitions of poverty are meaningless. By that measure a desperately poor country that distributes its squalor evenly would have no poverty. It is much better to look at real incomes and living standards. These show that those Britons who earn the least have a bit more cash, and many more creature comforts, than they did in 1979.

Consider Labour's case first. Inequality has increased in Britain since 1979, and faster than in any OECD country except America. So it is not surprising that the number of people earning less than half the average income has increased, to almost one-quarter of the population. Labour is also correct that the toughest kind of poverty, namely homelessness, has increased. It is also true that those living on state benefits have a meagre time of it. According to the most recent report from the Department of Social Security, the 10% of people on the lowest incomes have seen their real incomes fall by 13% since 1979. The other 90% saw an improvement.

On a philosophical level, Labour thinkers like Frank Field, a backbench MP, argue that the increased use of means-testing - which is applied twice as often as before 1979 - has undesirable effects. Means-tests trigger 'poverty traps' that make work or saving uneconomic, and 'moral hazards' that encourage people to lie or cheat.

The Tories interpret economic history differently. Yes, they concede, inequality has increased, but they claim an employment record that looks good compared with the rest of Europe's. Letting people price themselves into the labour market, even at low wages, means they have a chance to work their way up the economic ladder. Many do just that. Three-quarters of a surveyed sample of 89,051 men aged under 45 (and 905 of those in the bottom tenth by income) had higher real incomes in 1994 than they did in 1979.

And yes, Tories further concede, means-testing is problematic, but it has helped to target benefits to those in need, and to contain the growth in public spending. As for the government's alleged stinginess, since 1979 there has been an 86% increase in social spending in real terms, to more than £90 billion a year. While the income after housing costs for the lowest 10% seems to have declined, few of those who were in the bottom tenth in 1979 have stayed there ever since. Most of them have moved up.

Moreover, there is more income in the bottom tenth than official surveys can account for. Spending surveys find that this group, which is notoriously difficult to track, had increased its median expenditure by 28% at a time when its real income was supposed to have been falling. The proportion of lower-income households that have cars, video-recorders, central heating, washing machines and other consumer goods has increased markedly. The poor, therefore, cannot be called poorer simply because other income groups saw their salaries fatten faster. They have become richer in visible ways.

By their chosen standards, both Tories and Labour are right. If inequality is the most important measure of economic health, then Britain is worse off than it was in 1979. If income and a colour television are better indicators, then just about everyone is better off. The exceptions are the homeless and those who were in the bottom 10% in 1979 and have stayed there ever since.

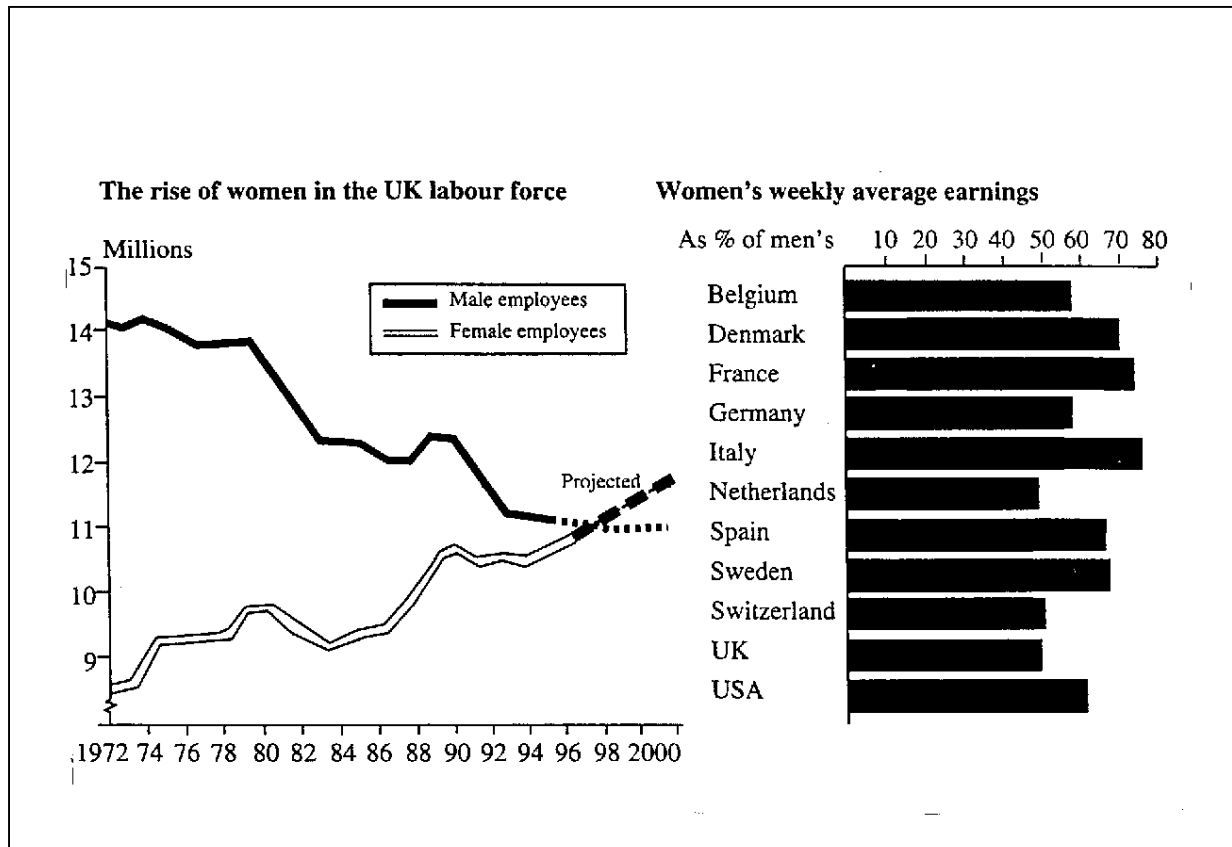
Labour faces a different issue. It has been quick to damn inequality, but slow to propose remedies. Tony Blair does not talk about redistributive taxation. A high minimum wage could narrow the gap a little, but it could also price some people out of work and force them into idleness and dependence.

(Source: 'The worse off but richer', *The Economist Election Briefing* 1997)

- (a) With reference to the information provided, comment on the significance of the distinction between absolute and relative poverty.
(10 marks)
- (b) The distribution of income has become more uneven since 1979. Discuss the validity of this statement.
(10 marks)
- (c) Examine two policies that might be employed to reduce the inequality in the distribution of income.
(20 marks)
- (d) Evaluate the proposition that an increase in inequality is a necessary condition for raising the rate of economic growth.
(20 marks)

(Total marks for Question 1: 60 marks)

WOMEN IN THE WORKFORCE



Women are winning the piece on the jobs front. Fifty years ago, it was a man's world in the workplace. This year or next, there are likely to be more women employed than men, a prospect that has raised fears about the redundant rogue male. But is this apparent victory in the economic war of the sexes proving a real one?

In 1945, within a matter of months, two million women left the workforce. Britain was back to a world of jobs dominated by men. For every woman at work, there were two men, a ratio that remained largely unchanged for another 20 years. The post-war objective of full employment was seen as full-time jobs for men.

But in the past 15 years there has been another massive demobilisation from the workforce. Except, this time, the economic drop-outs are more than a million men. Combine this with an increase of a million in the number of men who are still looking for jobs but cannot find them and the result is one of the highest rates of male non-employment in the western world.

Meanwhile, starting in the mid-1960s and gathering momentum in the last 15 years, women have grabbed more and more of the jobs. Result: there are now only a quarter of a million more male than female employees. When Mrs Thatcher became the first woman prime minister, the gap stood at 4 million. With pay rates still well behind those of men - weekly take-home earnings for full-time women are 70 per cent of male earnings - women have certainly formed a reserve army offering cheap labour for employers.

But there is a lot more to the female takeover of the workplace than that. Unskilled men in particular have found themselves wrong-footed by the move to a post-industrial economy. The staffing of Sheffield's Meadowhall retail centre - which has over half a million shoppers a week - tells its own story. The centre, which opened in 1990, was built on the site of a former steel mill, just the sort of heavy industry that once used to be such a heavy employer of men. But 78 per cent of the employees at Meadowhall are women.

Britain has a relatively high proportion of women in the workforce, but the US and Scandinavian countries such as Sweden score even higher on that count.

Where Britain does stand out is in combining this extent of female participation in work with a particularly low percentage of those whose jobs are full-time.

(Source: P Wallace, 'Women with a pyrrhic victory at work', *The Independent on Sunday*, 7 May 1995)

- (a) Identify the economic causes of the changing number of Trade Union members in the UK.
(10 marks)
- (b) How might the increase in female employment and the decrease in male employment be explained?
(20 marks)
- (c) Critically examine the factors which might explain the differences in women's and men's average earnings.
(20 marks)
- (d) Evaluate how EU labour market policies might affect wage differentials between men and women in the UK.
(10 marks)

(Total marks for Question 2: 60 marks)

Section B – Economic Development Option

Answer EITHER Question 3 OR Question 4

3.

LIVING IN POVERTY

In the 1970s, the then president of the World Bank, Robert McNamara, called world attention to the basic human needs of those in what he called ‘absolute poverty’. He said that there will always be ‘relative poverty’ in the sense of income differentials between richer and poorer, but he wanted the World Bank to focus on those in, “absolute poverty – a condition of life so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities”. The Bank then identified approximately the lowest 40 per cent of the population in developing countries as being in absolute poverty – about 900 million with an average per capita income of less than US \$100 a year.

Two decades after McNamara’s charge to the World Bank to attempt to reduce absolute poverty, the new president, Lewis Preston, still had to proclaim that “no task should command higher priority for the world’s policy makers than that of reducing global poverty”. In many countries, the gains from growth have not been reaching the poor.

Why not?

The answers relate in part to:

- the rate of growth
- the pattern of growth
- the failure of government policies.

A slow rate of growth increases the total number in poverty for two reasons: there is not only a weak ‘trickle down’ effect, but even worse, when a country’s growth is slow, its politicians need to gain political support. They then do so by in effect ‘buying’ support through the granting of favours such as foreign exchange allocations, import quotas, or subsidies. These rent-producing favours go to the non-poor: businessmen, large farmers, trade unions, and the army.

These inappropriate policies, in turn, tend to perpetuate a slow rate of growth. A vicious circle of slow growth and political favouritism then intensifies inequality and perpetuates poverty. A higher rate of growth is needed before politicians believe that they can afford to introduce policies that favour the poor.

The pattern of growth also matters in determining who are the beneficiaries of growth. The incidence of poverty can increase if the pattern of growth is urban biased, displaces unskilled labour, alters relative prices to the disadvantage of the poor, creates a gender gap, deteriorates child welfare, and erodes traditional entitlements that served as safety nets.

At the same time, governmental policies may be inadequate to lift some groups out of poverty. The major inadequacy is the lack of policies that create jobs. It can be argued that, when the market-price system does not provide full employment, government should not ignore remedial action. When public deficiencies in nutrition, poor health, and lack of education perpetuate low productivity, governmental policies should not ignore investment in human resources. When public expenditures must be necessarily limited, governments should not direct their expenditures to the non-poor to the neglect of those in poverty. These same strictures apply to foreign aid donors and international lending agencies such as regional development banks and the World Bank.

Rural and Urban Poverty in the 1980s

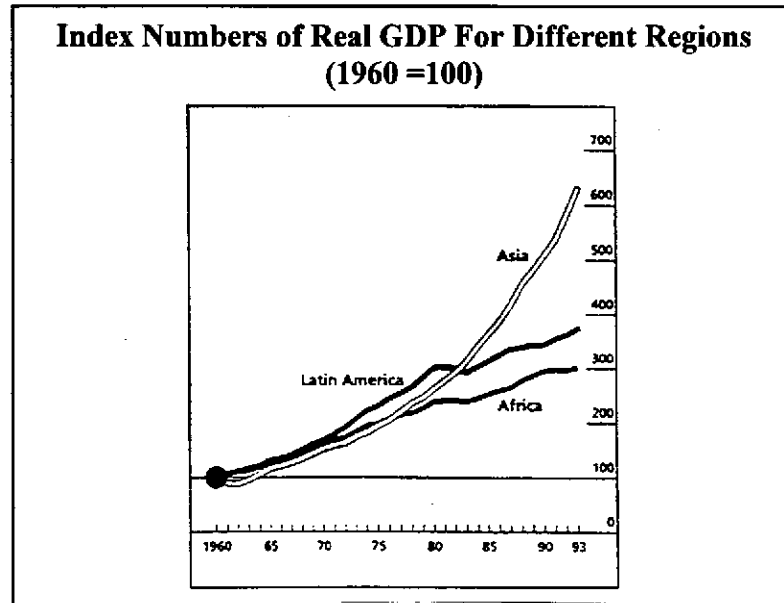
Region/Country	Percentage of total population in rural areas	Infant mortality (per thousand live births)		Access to safe water (percentage of population)	
		Rural	Urban	Rural	Urban
<i>Sub-Saharan Africa</i>					
Ivory Coast	57	121	70	10	30
Ghana	65	87	67	39	93
Kenya	80	59	57	21	61
<i>Asia</i>					
India	77	105	57	50	76
Indonesia	73	74	57	36	43
Philippines	60	55	42	54	49
<i>Latin America</i>					
Guatemala	59	85	65	26	89
Mexico	31	79	29	51	79
Peru	44	101	54	17	73

(Source: G.M. Meier, *Leading Issues in Economic Development*, O.U.P., 1995)

- (a) With reference to the passage, distinguish between absolute poverty and relative poverty as these concepts apply to developing countries.
(10 marks)
- (b) Evaluate the factors which account for poor people in developing countries deriving little benefit from economic growth.
(20 marks)
- (c) Examine policies which governments in developing countries might adopt to increase the rate of economic growth.
(20 marks)
- (d) Discuss why private capital flows might be a more effective way of promoting economic development than relying on official development flows.
(10 marks)

(Total marks for Question 3: 60 marks)

The economics of sub-Saharan Africa



(Source: The Economist, 29 June 1996)

Africa has lurched backwards at a time when poor countries elsewhere have sprung ahead. Today the total wealth of Africa, with twice the population of the United States, is little more than that of Belgium. As recently as the mid-1980s, Africa's disastrous performance could be blamed chiefly on the folly of its leaders' economic policies. These policies involved extensive state intervention which had results which were the opposite of those intended. Policies included state marketing boards for agricultural products, over-valued exchange rates, import tariffs and quota controls, and state-run industrial enterprises. The many detailed forms of government intervention in the economy provided much scope for the corruption of civil servants.

In recent years, however, parts of Africa have been trying to introduce their most radical adjustments since independence. Some 30 African countries have abandoned their experiments with socialism – usually after pressure from foreign creditors – in favour of the free-market policies advocated by the World Bank and IMF. These policies have been very controversial. Britain's Oxfam, which has worked for decades in Africa, told the World Bank and IMF last September that structural adjustment “can only be judged a complete failure.”

The World Bank is due to publish shortly its biggest study yet of adjustment in 29 sub-Saharan countries. It asks two main questions. How much of what these countries promised did they actually do? And was the result a better economic performance in 1987-91 compared with 1981-86?

The news is not all bad. The Bank judges that six countries got the macroeconomic fundamentals right: Ghana, Tanzania, Gambia, Burkina Faso, Nigeria and Zimbabwe. On average, all six improved their industrial output, exports, savings and income per person. But the fairly optimistic tone of the report contrasts with its more gloomy analysis. In no single country did reform work unambiguously in the right way. Worse, these six countries had deteriorating rates of investment. Worth \$1.6 billion in 1993, foreign direct investment is so negligible in Africa (it gets only 3% of global flows) that the study does not even measure it, let alone assess its rates of return. Only 13 of the countries studied even kept any data on private investment.

Ghana is the nearest the Bank can find to a model reformer. Its economy grew by an impressive 4% annually in 1988-92. But to achieve this, Ghana has been carefully nurtured by a Fund and Bank determined to ensure a success in Africa. Little private foreign investment has followed, and it has gone into gold, not into manufacturing. Ghanaians are still among Africa's poorest people: GDP per person is \$450. Ghana's national saving rate averaged 7.5% of GDP over 1987-91, compared with 33% for the fast-growing East Asian 'tiger' economies; its gross domestic investment rate is only 16% of GDP.

Those who disagree with the World Bank orthodoxy worry that Africa's economies are too fragile to withstand such demanding reforms. The chief economist at Oxfam argues that the high real interest rates required to meet short-term IMF monetary targets, coupled with the removal of import protection, kill off exactly the small industries that Africa needs to nurture. Untempered deregulation can undermine livelihoods of the poor, he argues, as it has for the farmers that Oxfam works with in eastern Zambia.

(Source: Adapted from 'Africa: A Flicker of Light', *The Economist*, 5 March 1994)

- (a) Contrast the economic performance of sub-Saharan Africa during recent years with that of other parts of the developing world.
(10 marks)
- (b) Explain why a lack of investment may be an important explanation of slow economic growth in sub-Saharan Africa.
(10 marks)
- (c) Evaluate the economic policies which the passage suggests help account for 'Africa's disastrous performance' in the 1980s.
(20 marks)
- (d) Evaluate the impact of structural adjustment policies in Africa.
(20 marks)

(Total marks for Question 4: 60 marks)

(Total for Unit 5: 60 marks)

6356

Edexcel GCE

Economics

Unit Test 6 – The UK in the Global Economy (Synoptic Unit)

Advanced

Time: 1 hour 45 minutes

Materials required for the examination

AB02
GP02

Items included with these question papers

Nil

Instructions to Candidates

In the boxes on the Answer Book write the name of the Examining Body (Edexcel), your Centre Number, Candidates Number, the subject title, the unit reference (6356), your surname, other names and signature.

The unit reference is shown in the top left-hand corner.

Answer your questions in the Answer Book, additional sheets may be used

Answer ONE question from Section A and ONE question from Section B. Questions in Section A will be marked out of 100; those in Section B will be marked out of 50. The mark out of 100 for Section A will be divided by two and added to the mark out of 50 on the chosen question from Section B.

Information for Candidates

This question paper is designed to give you the opportunity to use skills and ideas developed throughout the course in a new context. You may include in your answers relevant information from the whole of your course, where appropriate.

Marks allocated to parts of questions are indicated in **Bold Type**

Advice to Candidates

You must ensure that your answers to parts of questions are clearly numbered.

You will be assessed on your ability to organise and present information, ideas, descriptions and arguments clearly and logically, taking account of your use of grammar, punctuation and spelling.

SECTION A

Answer ONE question from this section.

(You should spend approximately 45 minutes on this section.)

- | | | |
|----------|---|-------------------|
| 1 | (a) Examine two ways in which joining a monetary union imposes constraints on the UK government's macroeconomic policy options. | (40 marks) |
| | (b) Examine the benefits to a country of being a member of a monetary union. | (60 marks) |
| <hr/> | | |
| 2 | (a) Discuss the sources of conflict between the European Union and other trading blocs. | (40 marks) |
| | (b) Examine the economic effects of abandoning tariff barriers in the world economy. | (60 marks) |
| <hr/> | | |
| 3 | In September 1994 Samsung, a South Korean company, announced that it intended to build a new electronics plant in the UK. | |
| | (a) Examine the reasons why companies like Samsung might decide to make such an investment in the UK. | (40 marks) |
| | (b) Evaluate the economic effects of such an investment on: | |
| | (i) the UK's Balance of Payments | |
| | (ii) the UK's national income. | (60 marks) |
-

(Total marks for Section A: 100 marks)

SECTION B

Answer ONE question from this section.

(You should spend approximately 45 minutes on this section.)

4. Extract 1: Monetary and fiscal policy

5 The Treasury's responsibilities include setting the framework of monetary policy, making forecasts of the economy, setting interest rates, and handling EMU matters. After discussion with Ministers, we decided that the overall aim of the Treasury was "to promote rising prosperity based on sustained economic growth". This overall aim is then fleshed out in a two-part mission. The first part of this requires us to "maintain a stable macroeconomic environment". The second part of the mission to "strengthen the long-term performance of the economy", is associated with a range of supply side policies. Macroeconomic policy has been targeted on stability, in particular low and stable inflation and stable public finances. The clear consensus around the world now is that monetary policy is the most effective way of regulating inflationary pressures and that short-term interest rates are the main instrument of monetary policy. Short-term rates seem to have a clear effect on spending, even if the effect can be delayed at times.

15 Fiscal policy is, by contrast, a blunter weapon. It is called upon to perform two tasks, firstly to maintain sound public finances and, secondly, to control the level of demand. It cannot effectively do both jobs at the same time. The main task of delivering low and stable inflation falls to monetary policy and in particular to the setting of short term interest rates. On the one hand this sounds rather easy and yet we know from experience that, in practice, it is intensely difficult. Essentially there are two reasons why mistakes are made: time lags and conflicts of objectives.

25 One common source of conflict over the past 20 years has been the behaviour of the exchange rate. A conflict can arise because the main instrument of policy, short-term interest rates, affects many people. In particular it can be very discriminatory in its impact. It has a big impact on the housing market and may also lead to a higher exchange rate, so that exporters will be hit disproportionately hard. Meanwhile, other parts of the economy remain relatively untouched.

(Adapted from: T. Burns, 'The conduct of monetary and fiscal policy' in *Economic Trends*, No. 509, March 1996)

4. (a) Describe the mechanism by which ‘short-term (interest) rates seem to have a clear effect on spending, even if the effect can be delayed at times’ (lines 13 – 14). **(6 marks)**
- (b) Discuss why the author suggests that fiscal policy is a less effective method of influencing spending than monetary policy. **(6 marks)**
- (c) Explain why ‘a conflict can arise because the main instrument of policy, short-term interest rates, affects many people’ (lines 25-26). **(6 marks)**
- (d) Examine the significance of the interest elasticity of demand for bank loans for the operation of monetary policy. **(6 marks)**
- (e) Evaluate the extent to which supply side policies ‘strengthen the long-term performance of the economy’ (lines 7 – 8). **(12 marks)**

Extract 2: Britain out of the ERM

5	<p>Britain’s exit from the ERM has gone into folklore as an economic masterstroke. Though not planned, it has been followed by prolonged growth, falling unemployment and low inflation. The lessons are clear. First, we should avoid fixed exchange rates, particularly a single currency. Second, loose monetary policy is the main route to prosperity.</p>
10	<p>One conclusion emerging from Britain’s exit from the ERM concerns the appropriate economic policy mix. Professor Wynne Godley recently declared in <i>The Financial Times</i> that the current mix of policies was the best we had ever had. In combining relatively loose monetary control with tighter fiscal policy, we have had export-led growth with the squeeze on the consumer minimising the danger of overheating. This has led some to suggest that the government should continue, and perhaps intensify, such policies.</p>

(Adapted from: *The Guardian*, 6 March 1995)

- (f) Examine **two** problems experienced by a country when its currency joins a fixed exchange rate system such as the ERM at ‘too high a rate’(line 5). **(8 marks)**
- (g) How might ‘loose monetary control with tighter fiscal policy’ (lines 9 - 10) have helped export-led recovery? **(6 marks)**

OR

By the year 2000 tourism will be the world's biggest industry. Estimates by the World Tourism and Travel Council put the annual value of trade in world tourism at over \$2.5 trillion (thousand billion) dollars – a staggering 5.5% of world GDP. Receipts from international tourism (about 20% of all tourism expenditure) have expanded at an average annual growth rate of over 13%
5 between 1970 and 1992. The UK has been a major beneficiary of this massive growth in international tourism. Our share of world arrivals in 1992 was 3.9% and we captured 5% of all international tourism receipts.

10 In the ten years to 1992, UK tourism recorded better foreign exchange earnings growth than all other leading export sectors apart from transport and electrical equipment manufacturers. Tourism's share of Gross Domestic Product in 1992 was 3.4% (excluding day visitor spending) and tourism-related purchases accounted for around 5.3% of all consumer spending in Britain. Transport, petroleum, retailing and other industries benefit from purchases directly allied to tourism. Tourism stimulates further indirect spending elsewhere in the
15 economy, equivalent to an estimated 50 – 70% of direct tourism-related expenditure.

20 There are well over 220,000 tourism related businesses in Britain employing almost 1.5 million people – around 6% of the entire workforce – and embracing a further 183,000 self-employed jobs.

On the other hand, the large number of tourists visiting London caused considerable external costs for those who live and work in the capital.

25 It is inevitable that the British will wish to experience the cultures and climates of other countries. As a result, expenditure by UK residents on holidays abroad increased by 40% in the 1980s, while expenditure on holidays at home declined. Many of the factors influencing travel decisions, such as exchange rates, are out of our control.

(Adapted from: A. Bliss, 'Tourism: a major contribution to Britain', in *Public Policy Review*, 1994.)

- (a) Examine the importance of tourism to the UK economy. **(10 marks)**
- (b) Discuss *two* arguments you could use in support of the case for the UK government promoting the tourism industry in the UK. **(6 marks)**
- (c) It has been argued that the growth of tourism has an adverse effect on the local environment. Examine *two* policies which the UK government could adopt in recognition of this problem. **(12 marks)**
- (d) Analyse *three* factors that affect the demand for travel abroad by UK residents. **(9 marks)**

Extract 2: Economic Recovery

5

Supporters of Britain's membership of the exchange rate mechanism (ERM) had believed that devaluation would result in a higher rate of inflation and have no lasting effect on the real economy. In fact, the economy's performance has bettered even the expectations of the few people who were optimistic about the effects of devaluation. Not only has there been a strong recovery and falling inflation, but there has also been a falling rate of unemployment and a reduced current account deficit.

10

Since sterling's exit from the ERM, the dole queue has shortened while the current account deficit has shrunk from an average of £10 billion a year to an annualised £4 billion in the first half of 1994.

15

Has the economic miracle finally arrived? Probably not. Leaving aside the question of the accuracy of the (flattering) official figures, it is not pedantic to point out that the sharp fall in this year's current account deficit owes much to freak jumps in oil production and overseas investment income. Without these, the external deficit was still about £17 billion a year, 2.5% of national income. That economic recovery should come with a stable, rather than larger, underlying current account deficit is still impressive and is explained by manufactured exports which, after two years of modest expansion, rose rapidly as a result of an improving world recovery and export profitability boosted by devaluation.

20

(Adapted from: Bill Martin, 'Investment Shortfall spells the end of Clarke's Dream', *The Sunday Times*, 23 October 1994)

- (e) Why did some economists consider that devaluation ‘would result in a higher rate of inflation and have no lasting effect on the real economy’ (lines 2 – 3)? **(7 marks)**
- (f) Under what circumstances would you expect devaluation to result in ‘a falling rate of unemployment and a reduced current account deficit’ (lines 6 - 7)? **(6 marks)**
-

(Total for Section B: 50 marks)

(Total marks for Unit 6: 100 marks)

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 1

EDEXCEL

ADVANCED SUBSIDIARY GCE

ECONOMICS - UNIT 1

MARK SCHEME

General Points

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ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 1

Section A

Key to Answers

1	C
2	D
3	C
4	B
5	C
6	D
7	C
8	B
9	D
10	C

1. The position of the PPF is determined by the potential combinations of bread and potatoes which would be produced if all resources are fully employed. Therefore its movement from XX to YY must be due to changes in relative productivities.
2. Positive statements are those which can be verified by reference to facts. Only D falls into this category. A, B & C are statements based on value judgements.
3. Mixed economies have a combination of private enterprise and public enterprise. Therefore the resources will be allocated by a mixture of the price mechanism and by the state.
4. A rise in real income will cause the demand curve to move to the right and a government subsidy will cause the supply curve to move to the right.
5. If a rise in the price of one product causes a fall in the demand for another, then it implies that the goods are purchased together i.e. that they are complements. Example: if car prices rise then demand for petrol may fall.

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 1

6.

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

$$-0.7 = \frac{-x}{+10\%} \therefore x = -7\%$$

$$XED = \frac{\% \text{ change in quantity of the demand}}{\% \text{ change in price of coffee}}$$

$$+1.1 = \frac{x}{10\%} \therefore x = +11\%$$

7. $YED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in real income}}$

\therefore a value of +0.3 implies that a change in real income would lead to a proportionately smaller change in demand.

8. A tax causes a leftward shift in the supply schedule. Therefore new quantity demanded is 40 units. The total tax per unit is £7 (£15 - £8) of which £3 per unit is paid by the consumer and £4 by the producer. The total tax burden on the producer is, therefore, £4 x 40 = £160.
9. At OM, the quantity supplied is OQ leaving a surplus of NU. If the government buys this surplus at OM per unit, then the value of the support is OM x NU – NUQR.
10. A tax of £20 per unit means that more can be supplied at each price e.g. what was supplied at £80 (900 units) can now be supplied at £60. Therefore the new equilibrium price will be £50 where quantity demanded is equal to quantity supplied (800 units).

3 marks – Extremely clear explanation of choice.

2 marks – Generally clear explanation of choice.

1 mark – Limited explanation of choice.

0 marks – No explanation of choice

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 1

Question	Scheme	Marks
SECTION B		
11 (a)	<p>Demand for oil is likely to be inelastic with respect to price (1 mark), i.e a price rise will cause a less than proportionate fall in demand. Reference to passage: price rise has resulted in OPEC members receiving an extra \$25 bn in revenues (1 mark).</p>	2
(b)	<p>Two effects of higher oil prices from the passage:</p> <ul style="list-style-type: none"> • Increased petrol prices • Inflationary impact i.e. higher oil and petrol prices would increase costs of production. N.B. This may be regarded as two points if related to consumption and production. • Increased revenues for oil producing countries; these earnings of foreign currency from exports, leading to an improvement in their Balance of Payments on current accounts, could exert upward pressures on their exchange rates. <p>Identification of effects: 2 marks. Evaluation: up to 4 marks.</p>	6
(c)	<p>Crude oil prices rose by 40% but petrol prices by only 9%. The reason suggested in the passage is competition between petrol retailers; or existence of stocks; or crude oil prices only accounts for a small proportion of the price of petrol: 1 mark</p> <p>A further 2 marks should be awarded for appropriate analysis, e.g. price cutting wars between supermarkets and traditional garages.</p>	3

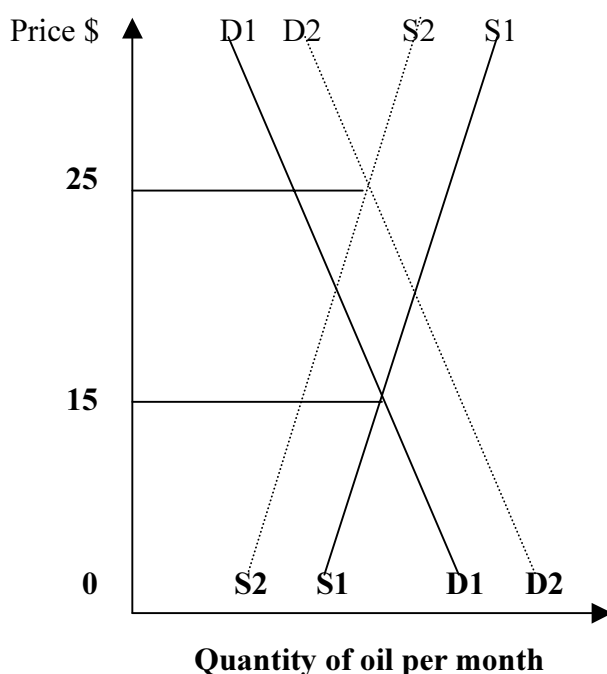
ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 1

Question	Scheme	Marks
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d)	Both supply side factors (i.e. hurricane in Mexico and production from non-OPEC countries such as the UK and Norway falling below expectations) and demand side factors (i.e. colder winter and higher demand from emerging markets) must be identified (see diagram).	
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4 marks for explanation including the diagram and **2 marks** for evaluation.

If only one side is covered, then award a maximum of 4 marks (i.e. 2 for diagram and 2 for explanation).



6

(e)	Demand is becoming more elastic with respect to income, from 0.5 to between 0.75 and 1.0.	
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Definition of income elasticity of demand (either explicit or implicit):
1 mark

Understanding of value of YED in the context of the passage:
1 mark

Recognition that its value is rising in some countries:
1 mark

3

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 1

Question	Scheme	Marks
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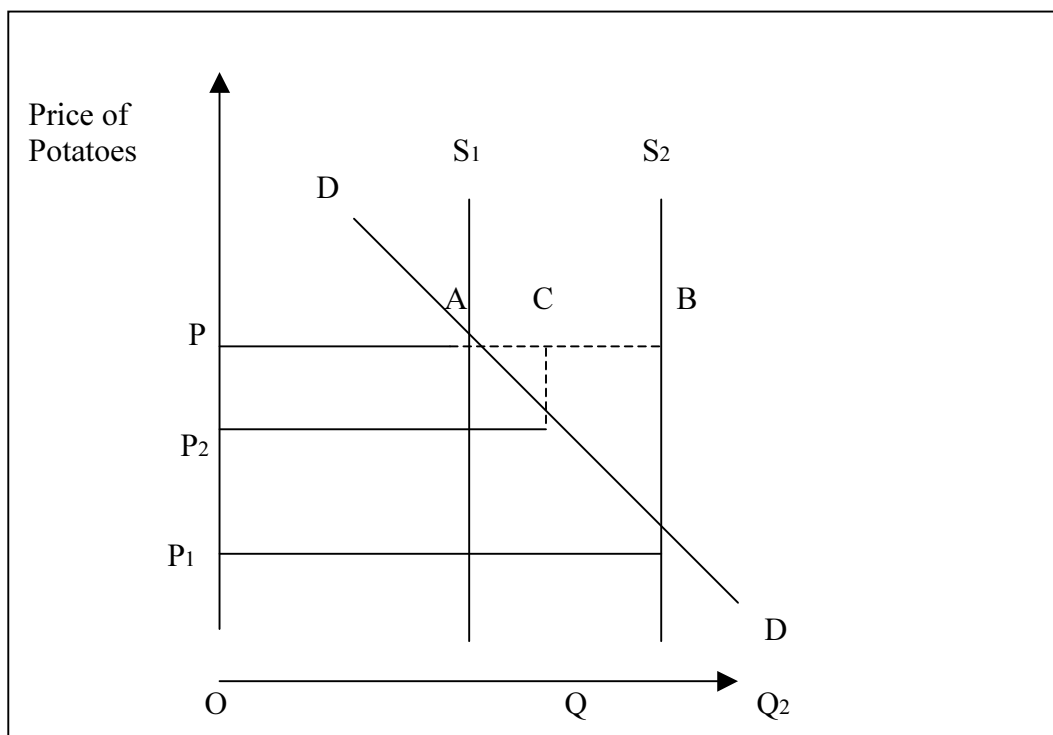
12

(a)	(i)	The passage indicates that the demand for potatoes is inelastic in that, as supply increases, prices to farmers fall more than proportionately. This could clearly be shown diagrammatically.	2
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(a)	(ii)	The passage indicates that, in the short run at least, supply is inelastic. Once the potato crop has been planted, there is little that can be done on a planned basis. Supply may change for exogenous reasons such as waterlogged fields and hard frosts.	
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For full marks there must be a clear and accurate explanation.	2
--	----------

(b)



If there were an unplanned increase in supply then, in a free market, the price of potatoes would fall from P to P₁. If the Potato Marketing Board purchased the surplus A-B then price could remain at P. If, as is likely in this case, they bought less than the total surplus price would fall to P₂.

Mark allocation:

4 marks for explanation and the diagram

2 marks for evaluation

6

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 1

Question	Scheme	Marks
(c)	Problems selling to Eastern Europe; <ul style="list-style-type: none">• Cost of transport.• Cost of collecting potatoes from the ground rather than ploughing them in.• The demand for potatoes in Eastern Europe may be low.• Selling to Eastern Europe may result in excess supply, causing problems for their potato growers. (2 x 2 marks)	4
(d)	Implications of absence of Potato Marketing Board for: <i>Consumers:</i> In the short run consumers would benefit in years of glut because of low prices, but clearly lose in years of shortage as prices would soar. Also, if prices were continually low, potato farmers would go out of business, leading to a long-term reduction in supply and higher prices. These ideas could clearly be shown using supply and demand diagrams. <i>Producers:</i> Without an organised support buying board, potato farmers would face great uncertainty; they would not know their income from one year to the next. Some farmers might look for more stable forms of produce, resulting in a reduction of the number of potato farmers. (2 x 3 marks)	6

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 1

Assessment Objectives Grid

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
SECTION A					
1	2	2			4
2	2	2			4
3	2	2			4
4	2	2			4
5	2	2			4
6	2	2			4
7	2	2			4
8	2	2			4
9	2	2			4
10	2	2			4
Total	20+2=10	20+2=10			40+2=20
SECTION B					
Qu.11(a)	1	1			2
Qu.11(b)			2	4	6
Qu.11(c)			2	1	3
Qu.11(d)			4	2	6
Qu.11(e)	1	1		1	3
Total	12	12	8	8	20
Qu.12(a)	2	2			4
Qu.12(b)			4	2	6
Qu.12(c)			2	2	4
Qu.12(d)			2	4	6
Total	12	12	8	8	20

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 2

EDEXCEL

ADVANCED SUBSIDIARY GCE

ECONOMICS - UNIT 2

MARK SCHEME

General Points

The scheme tries to provide a range of likely relevant responses to the questions set. All relevant responses are worthy of marks, it is important to reward good work even if it is not referred to explicitly in the mark scheme. **Valid original responses call for high marks.**

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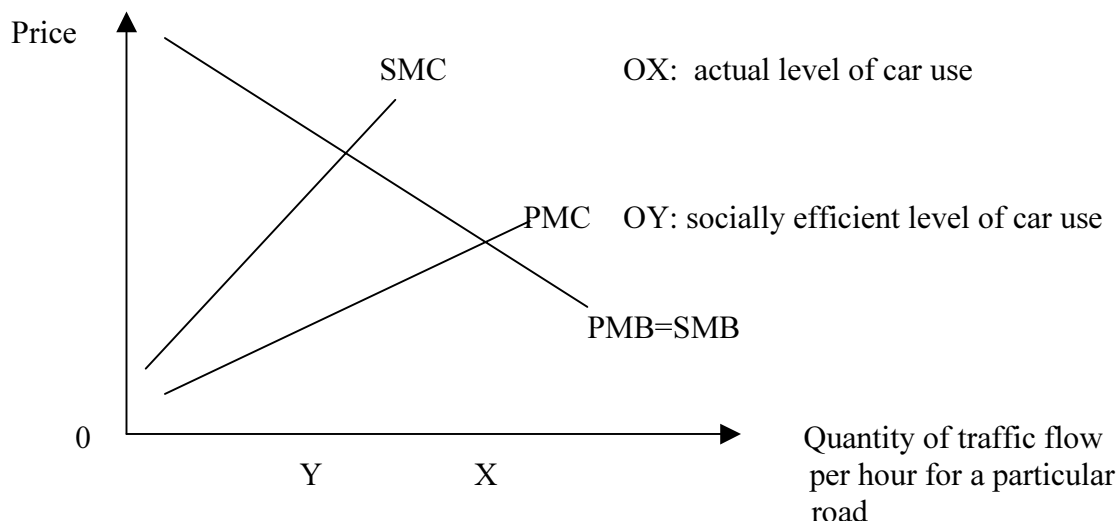
ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 2

Questions	Scheme	Marks
1		
(a)	Series of accidents. General deterioration in the reliability and quality of the services. 1 mark per point.	2
(b) (i)	External benefits are those accruing to third parties who are not the buyers or sellers in a transaction. Where external benefits exist there will be a divergence between social and private benefits.	2
(b) (ii)	Reduced congestion on roads and, therefore, shorter journey times; less pollution from road traffic; more likelihood that employees arrive at work on time.	2
(c)	The growth of road traffic may be explained by reference to the following factors; <ul style="list-style-type: none"> - high price/poor reliability of buses and trains - improvements in roads - increase in real incomes - greater convenience of road transport. <p>A discussion of at least 4 factors is required for full marks.</p>	9
(d)	Consideration of following points: <ul style="list-style-type: none"> - London is the richest part of Britain with many high income earners - money required to pay for investment would come from taxpayers across the whole country - many of those who will benefit most are people living in London. <p>BUT</p> <ul style="list-style-type: none"> - underground used extensively by commuters who live outside London and also by tourists who bring in valuable foreign currency earnings. <p>Up to 4 marks for relevant analysis and 3 marks for evaluation</p>	7

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 2

Questions	Scheme	Marks
(e)(i)		

The statement implies that the social costs of car use are considerably greater than the private costs which include only costs such as petrol. However, there are considerable external costs associated with car use such as congestion, pollution, damage to roads, policing etc.



4 marks for diagram and explanation. **2 marks** for knowledge of external costs. **2 marks** for evaluation.

8

- (e) (ii) A system of road pricing which charges motorists for entering a city area would 'internalise the externality' by increasing the marginal cost of car use.

This would act as a disincentive for drivers to use their cars for 'unnecessary' journeys and so help to reduce road congestion.

However, such a system would increase the average costs of firms delivering goods, which may be reflected in higher prices. Also, it might not distinguish between times when there is congestion and times when there is no congestion. The cost of introducing such a scheme might be very high.

Candidates must consider both sides of the argument and attempt some evaluation.

Up to **7 marks** for discussion of the arguments for and against a road pricing system;

3 marks for reasoned conclusion.

10

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 2

Question	Scheme	Marks
2		
(a) (i)	5.16 bn tons	2
(a) (ii)	Asia 313.6%	2
(b) (i)	External costs arise when social costs exceed private costs i.e. when third parties are adversely affected by a transaction.	2
(b) (ii)	These gases lead to global warming and acid rain. In the cases of the former, there will be effects on climate which could be unfavourable eg increased flooding. While acid rain results in damage to buildings, farmland etc. 4 marks for explanation and 2 marks for examples.	6
(c)	Permits to pollute are traded in the market. The worst polluters must buy permits which add to their costs of production, whereas the cleanest operators can sell permits. Therefore, there is an incentive for firms to cut pollution levels. Diagram should show impact on firms of costs of buying permits. 2 marks for an understanding of permits to pollute, 4 marks for a diagram and explanation, 2 marks for evaluation.	8
(d)	<p>Advantages of using tradable permits:</p> <ul style="list-style-type: none"> - No need for government regulation which is expensive and difficult to enforce; therefore it is a cost efficient method of reducing pollution; - Gives clear market signal to producers to use clean technology; - More likely to be acceptable to developing countries <p>Arguments against the use of tradable permits :</p> <ul style="list-style-type: none"> - Immoral to give companies the right to pollute; - Need to supplement system with local controls to prevent concentrated pockets of pollution, - Might hinder development of poorer countries which have less clean technology. <p>Up to 7 marks for discussion of the arguments for and against tradable permits and 3 marks for evaluation.</p>	10
(e)	<p>Other possible methods include:</p> <ul style="list-style-type: none"> - Extension of property rights - Trying the polluter - Regulation. <p>Up to 7 marks for discussion of the relevant arguments and 3 marks for evaluation.</p>	10

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 2

Assessment Objectives Grid

Question	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
Qu.1(a)	2				2
Qu.1(b)	2	2			4
Qu.1(c)	4	3	2	0	9
Qu.1(d)	0	2	2	3	7
Qu.1(e)(i)	2	2	2	2	8
Qu.1(e)(ii)	2	3	2	3	10
Total	12	12	8	8	40
Qu.2(a)		4			4
Qu.2(b)(i)	2				2
Qu.2(b)(ii)	2	2	2		6
Qu.2(c)	2	2	2	2	8
Qu.2(d)	3	2	2	3	10
Qu.2(e)	3	2	2	3	10
Total	12	12	8	8	40

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 3

EDEXCEL

ADVANCED SUBSIDIARY GCE

ECONOMICS - UNIT 3

MARK SCHEME

General Points

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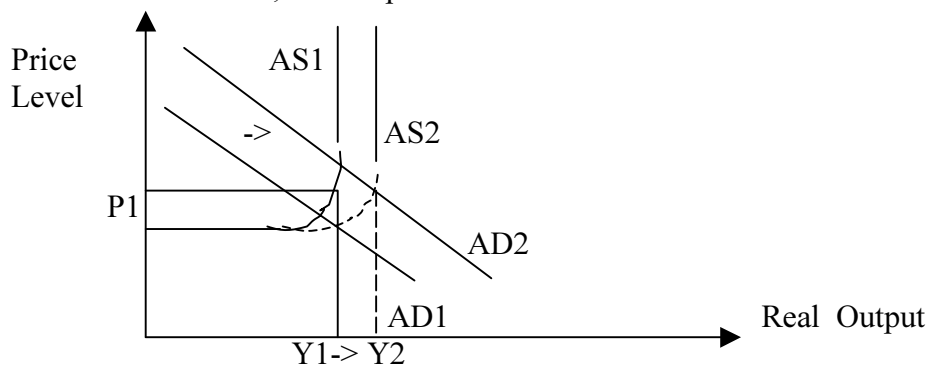
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ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 3

Question	Scheme	Marks
1		
(a)	Aggregate demand is a summation of several items of expenditure in different sectors of the economy. Consumption; investment; government expenditure; exports. (1 mark for definition and 1 for each component)	5
(b) (i)	A decrease in tax rates would lead to an increase in disposable income. In turn this would lead to a rise in consumption. This might stimulate an increase in investment as firms are faced with higher demand for their goods. Overall aggregate demand would increase.	1 1 3
(b) (ii)	If imports are rising faster than exports then leakages would be rising faster than injections i.e. there would be a greater flow of income out of the UK economy than flowing in. The overall effect would be a fall in aggregate demand.	2 3
(c)	Investment is a component of aggregate demand. Therefore, an increase in investment would cause the AD curve to shift to the right. However, higher investment would also increase productive capacity. Therefore, the AS curve would also shift to the right. Overall, real output would increase.	5 5



Total marks for Question 1: 30

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 3

Question	Scheme	Marks
2		
(a)	<p><i>What are the main objectives of macroeconomic policy?</i></p> <ul style="list-style-type: none"> • Low rate of inflation/stable prices; • Economic growth; • Full employment; • Balance of Payments equilibrium; • More even distribution of income; • Improvement in quality of environment; • Low government borrowing. 	5
(b)	<p>Which two objectives of macroeconomic policy do you consider to be most important for the UK Government to pursue in the late 1990s? Justify your answer.</p> <p>A selection of any TWO of the above would be acceptable, so long as the selection is justified:</p> <p>Expect candidates to support their chosen objectives with at least TWO well reasoned arguments for each.</p>	10
(c)	<p><i>Explain how these objectives might conflict with each other and with other macroeconomic goals.</i></p> <p>There should be an application of economic concepts and analysis.</p> <p>Reference must also be made to the conflict with other objectives: eg full employment might be associated with rising real incomes and an increase in imports so leading to a Balance of Payments deficit.</p> <p>If economic growth and full employment have been selected in part (a) then it could be argued that rapid growth could result in technological and structural unemployment (at least, in the short run). Rapid growth might also have undesirable consequences for:</p> <ul style="list-style-type: none"> • the environment • the rate of inflation (if shortages of labour and raw materials appear) • the distribution of income. <p>If the response is confined solely to a conflict of the two objectives selected in part (a) then a maximum mark of 7 may be awarded.</p>	15

Total marks for Question 2: 30

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 3

Question	Scheme	Marks																		
3																				
(a) (i)	Value of goods and services produced by a country in a year.	2																		
(a) (ii)	Data are in real terms, i.e. they have been adjusted for inflation.	2																		
(b) (i)	1990-92: Recession, because fall in real GDP, and fall in consumption 1990-91. 1993-96. Recovery, because rise in real GDP; rise in consumption.	6																		
(b)(ii)	Any two of the following – Changes in the: <ul style="list-style-type: none">• level of unemployment• rate of inflation• overall Balance of Payments position.	4																		
(c)(i)	<table><tr><td>YEAR</td><td>£M</td></tr><tr><td>1989</td><td>-20779</td></tr><tr><td>1990</td><td>-15120</td></tr><tr><td>1991</td><td>-8346</td></tr><tr><td>1992</td><td>-7210</td></tr><tr><td>1993</td><td>-11958</td></tr><tr><td>1994</td><td>-7165</td></tr><tr><td>1995</td><td>-1772</td></tr><tr><td>1996</td><td>-4358</td></tr></table> <p>The figures show that the current account moves from a surplus in 1986 to a very large deficit between 1988 and 1990 but a deterioration in 1993, followed by an improvement in 1994/5 and a deterioration in 1996.</p>	YEAR	£M	1989	-20779	1990	-15120	1991	-8346	1992	-7210	1993	-11958	1994	-7165	1995	-1772	1996	-4358	4
YEAR	£M																			
1989	-20779																			
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1996	-4358																			
(c) (ii)	Deterioration in current account at the end of the 1980s due to boom in economy: “Sucking in” of imports; might also have been associated with a rise in the exchange rate of the pound. Improvement in 1991 due to recession and consequent fall in demand for imports, while foreign demand for UK exports held up quite well. Up to 4 marks for relevant analysis and up to 2 marks for evaluation.	6																		
(d) (i)	1989 = 23.4% 1996 = 19.3%	2																		
(d) (ii)	With a smaller proportion of GDP being used for investment expenditure in 1996 than in 1989 current living standards might be relatively high, but real GDP might rise at a slower rate in the future. 1 mark for knowledge of living standards, up to 3 marks for evaluation.																			
Total marks for Question 3:30		4																		

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 3

Question	Scheme	Marks
4		
(a)	Weights indicate the relative importance of each category of spending. These weights are adjusted annually to take account of changes in spending patterns (2 marks). They are determined on the basis of Family Expenditure Surveys from which the overall pattern of spending can be derived (1 mark). Accept reference to ‘basket of goods’, or ‘survey’ for the third mark. (Specific reference to the Family Expenditure Survey is not necessary). Numerical examples: up to (2 marks) if there is no other material.	3
(b)	For all parts of (b) , give 1 mark for weight if supported by valid explanation.	
(b) (i)	Tobacco Weight is likely to have decreased because the increased awareness of illnesses associated with smoking has led to a decrease in demand for cigarettes. Also, increases in tax on cigarettes.	
(b) (ii)	Clothing Weight is likely to have decreased because of the increase in imports of cheap clothing from low wage countries. Also, new technology has greatly increased productivity in this industry, resulting in lower real prices. Accept increase in weight supported by valid argument.	
	2 marks for suggested change in weight. Up to 4 marks for appropriate discussion.	6
(c) (i)	Economy in recession from end of 1990 to end of 1992 (evidence: rising unemployment; falling rate of growth of earnings; negative growth in manufacturing output and high proportion of firms working below capacity). Economy in recovery phase from end of 1993 (evidence: unemployment peaked and started to fall; positive manufacturing output; smaller % of firms working below capacity). Candidates must make reference to two of the figures for each phase for full marks.	4
(c) (ii)	Other indicators: Rate of inflation; Balance of Payments on Current Account; GDP. 1 mark for an appropriate indicator plus 3 marks for explanation of significance of the item.	4

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 3

Question	Scheme	Marks
(d) (i)	<p>A variety of approaches are acceptable including the Philips curve analysis.</p> <p>2 marks for identification of expected inverse relationship between unemployment and earnings.</p> <p>2 marks for explanation, eg as unemployment falls, labour market becomes tighter. Wages are bid up as employers try to attract workers with appropriate skills.</p>	4
(d) (ii)	<p>Relationship broadly illustrated by data: 1 mark</p> <p>2 marks for evaluation.</p>	3
(e)	<p>Arguments <u>for</u> an increase in interest rates: Strong growth in manufacturing output and growing belief by firms that their capacity is liable to limit output growth; rapid rise in retail sales.</p> <p>Arguments <u>against</u> an increase in interest rates: Little evidence of a rise in growth of earnings; About half of firms still working below capacity; Growth in manufacturing output appears to have levelled off; Rise in exchange rate might reduce inflationary pressures.</p> <p>2 marks for analysis. Up to 4 marks for evaluation.</p>	6

Total marks for Question 4: 30

ADVANCED SUBSIDIARY GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 3

Assessment Objectives Grid

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
SECTION A					
Qu.1(a)	5				5
Qu.1(b)	4	6			10
Qu.1(c)		3	6	6	15
Total	9	9	6	6	30
Qu.2(a)	5				5
Qu.2(b)	4	6			10
Qu.2(c)		3	6	6	15
Total	9	9	6	6	30
SECTION B					
Qu.3(a)	4				4
Qu.3(b)(i)	1	2	2	1	6
Qu.3(b)(ii)	2	2			4
Qu.3(c)(i)	1	3			4
Qu.3(c)(ii)			4	2	6
Qu.3(d)(i)		2			2
Qu.3(d)(ii)	1			3	4
Total	9	9	6	6	30
Qu.4(a)	3				3
Qu.4(b)	2	4			6
Qu.4(c)(i)	1	3			4
Qu.4(c)(ii)	1	2	1		4
Qu.4(d)(i)	2		2		4
Qu.4(d)(ii)			1	2	3
Qu.14(e)			2	4	6
Total	9	9	6	6	30

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

EDEXCEL

ADVANCED GCE

ECONOMICS - UNIT 4

MARK SCHEME

General Points

The scheme tries to provide a range of likely relevant responses to the questions set. All relevant responses are worthy of marks, it is important to reward good work even if it is not referred to explicitly in the mark scheme. **Valid original responses call for high marks.**

Points made should be ticked in the body of the script and marks placed in the right hand margin.

Do not be reluctant to use the full mark range and, especially, do not shy away from awarding maximum marks. The candidates are working under great pressure; consider what might be judged excellence in such circumstances.

Be careful not to be severe in awarding marks to candidates answering questions within your own area of expertise. Conversely, avoid being too generous in less familiar areas.

The total marks for each question should be circled and also entered on the front of the answer book.

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

Section A

Key to Answers

1	C
2	C
3	D
4	D
5	C
6	D
7	C
8	E
9	D
10	E

1. When the price elasticity of demand is equal to one the marginal revenue curve will be positioned where the relevant level of output marginal revenue is equal to zero. Only the output OC satisfies this outcome.
2. The total profit function is shaped as a curve. It is negative below output OA and beyond output OD. The maximum level of profit is at output OC. This must represent where $MC = MR$ where profits are maximised.
3. Three characteristics of a market are identified. Only in the case of oligopoly are all three characteristics typical. The first two characteristics rule out A as the key, the second B as the key and the third C as the key. E is irrelevant to any characteristic.
4. The requirements for successful price discrimination are that a monopolist can keep consumers in two different markets wholly separate. If resale from one market to another can take place then discrimination cannot succeed. Thus D is the key.

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

5. If a firm is not wholly covering average costs by its average revenues there is still no need to shut down production if at least average variable costs are covered. In this situation then some contribution to the burden of fixed costs is made.
6. A cartel can be successful by achieving a dominant position in a market. Crucial to maintenance of existing market dominance is the absence of any threat from potential new entrants. Thus the key is D here when the question focuses on the relevance of such a threat to a cartel.
7. Firm X must in a perfectly competitive market produce an identical product. Only C or E are credible choices. Firm Y must be producing in a differentiated market so only A, B or C are possible choices. Together with the uniqueness of a pure monopoly C must be the key.
8. The pie chart shows four firms with a market share over 12%: three of these are already, or are close to being, defined as a statutory monopoly. The combined share of output by the named four remaining firms is just 11%. In this situation only key E is a credible choice of key.
9. It would be expected that new entry would be encouraged by enhanced profitability of existing firms since any short-term losses in breaking into the relevant market by the new entrant would be lower than previously expected. The remaining four alternatives would have the effect of deterring entry rather than encouraging it. Thus D is the only credible choice of key.
10. The pie chart shows that four chocolate producers account for 85% of total output. Ignoring Terrys, the three largest firms account for 80% of output. A, B and C are not credible characteristics of an oligopolistic market and D cannot be inferred from the data given.

Justification

3 marks – Extremely clear explanation of choice.

2 marks – Generally clear explanation of choice.

1 mark – Limited explanation of choice.

0 marks – No explanation of choice

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

SECTION B

Question	Scheme	Marks
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11 (a)	Newspaper Title	Circulation	% of national total
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The Sun	4,007,520	29.8
---------	-----------	------

Today	579,277	4.3
-------	---------	-----

The Times	471,847	3.5
-----------	---------	-----

Total for these papers

owned by News

Corporation	<u>5,059,277</u>	<u>37.6</u>
-------------	------------------	-------------

(2 marks)

The statutory definition of a monopoly is a 25% market share.

(1 mark)

Candidates need to make a further comment for the remaining marks such as: **The Sun** could also be regarded as an example of a monopoly on this basis; also, together with the two other titles, News Corporation provided over one in three of all national newspapers sold in 1994.

On the other hand, candidates may suggest that News Corporation is not a monopoly in the literal meaning of the word, given the availability of several competing alternative newspapers.

(2 marks)

5

(b) Newspaper companies see benefits in owning more than one title because two newspapers may:

- appeal to different segments of a national market as in the case of **The Sun** and **The Times** and which is reflected in different formats (tabloid/broadsheet) and different prices (different PED), leading to an increase in market share through owning two titles.
- result in possible risk-bearing economies of scale.
- appeal to differences in readership based on nationality e.g., **Daily Record** in Scotland and the **Daily Mirror** in England and Wales or owning local newspapers throughout the UK.

2 marks for identification of a reason, up to **4 marks** for further elaboration.

6

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

Question	Scheme	Marks
(c)(i)	<p>Predatory pricing can be defined as a situation where a firm contemplates making financial losses in a particular market (2 marks) with the clear intention that in incurring these losses a specific competitor will be driven out of business (3 marks).</p>	5
(c)(ii)	<ul style="list-style-type: none"> News Corporation may hope that, despite current losses, profitability will be higher in the long term because with reduced competitive pressures the price of newspapers can be raised above levels that would otherwise have existed. News Corporation may simply have perceived that demand for its national newspapers was more price sensitive than it had previously seemed, i.e., the price elasticity for newspapers was rather higher than those in the industry had accepted was the case. Thus the price reductions could boost circulation of The Sun and The Times. News Corporation may have felt that increased competition from other media – television news around the clock and greater sports coverage – has made sales of daily newspapers a market lacking overall growth. Table 1 indicates that the sales of national newspapers in 1994 was less than two years previously. News Corporation may have perceived that its action deterred potential new entrants to this market. <p>Three reasons to be considered for up to 3 marks each</p>	9
(d)	<p>There is a need for a definition of a contestable market and whether this particular market illustrates this definition. There is no data explicitly given to prompt candidates on this second aspect.</p> <p>Definition – a perfectly contestable market is one where it is completely open to potential new competitors or entrants. Entrants are able to enter and leave the industry at no net cost, i.e., there is no risk involved in making entry. Existing or incumbent firms thus find themselves in effect in a situation akin to perfect competition. They have virtually no market power. But the number of firms does not have to be large as is assumed by the perfectly competitive model.</p> <p>Reference can be made to the absence of non-recoverable sunk costs.</p> <p>For definition and analysis of the concept award up to 4 marks.</p>	

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

Question	Scheme	Marks
	<p>Credit should be given to candidates who raise the issue in this case of:</p> <ul style="list-style-type: none"> • Changes in the technology of newspaper production, as illustrated by the decline in the importance of national newspapers printed in Fleet Street, London. These involved direct inputting of copy which, together with a challenge to well-established labour practices, offered a lower barrier to entry rather than hitherto for potential newcomers to this market. • What is the evidence of recent entry and exit? • What are the perceived entry barriers into newspaper production and their distribution? <p>There might be reference to the recent appearance of The Independent and Today, although both titles have been the subject of consequent takeovers given large financial losses. Do these facts confirm that the market is contestable?</p> <p>Attempts to evaluate on this part of the question merit 5 marks.</p>	9
(e)	<p>Reasons might include:</p> <ul style="list-style-type: none"> • The benefits of diversification. • Ownership of other media, e.g., magazines and journals, could be helpful in promoting newspapers if the costs of such promotion were reduced through ownership. • The perception that other media yield higher returns than in newspapers given the income from selling advertising (Lord Thomson's now (in)famous comment about 'a licence to print money'). • Non-economic reasons including the simple thirst for power and prestige accruing from owning assets in the communications business which have an obvious political dimension and not just evident in the UK. • Newspaper publishers are prevented from owning terrestrial television companies but not satellite (e.g., BskyB owned by Rupert Murdoch). <p>Up to 4 marks for analysis, 2 marks for evaluation.</p>	6

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

Question	Scheme	Marks												
12 (a)(i)	<p>The 5-firm concentration ratio is the proportion of total output accounted for by the leading 5 breweries (2 marks).</p> <table><tr><td>Bass</td><td>23%</td></tr><tr><td>Courage</td><td>19%</td></tr><tr><td>Scottish & Newcastle</td><td>13%</td></tr><tr><td>Carlsberg Tetley</td><td>17%</td></tr><tr><td>Whitbread</td><td><u>13%</u></td></tr><tr><td></td><td><u>85%</u></td></tr></table> <p>Or total market less ‘others’ at 15% = 100-15% = 85%</p>	Bass	23%	Courage	19%	Scottish & Newcastle	13%	Carlsberg Tetley	17%	Whitbread	<u>13%</u>		<u>85%</u>	(2 marks) <
Bass	23%													
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ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

Question	Scheme	Marks
	<p>brewing market?</p> <p>For consumers the tied house might mean they can drink beer in public houses that have the benefit of a brewer financing attractive premises, as compared with free houses some of which may lack adequate financial backing to be attractive competitors in the market for leisure pursuits. They can expect regular supplies of the branded beers of the brewer who owns the pub. On the other hand the chart makes it apparent that free houses sold more beer than tied pubs at the time the article was published. Furthermore the prices paid by free houses were typically less than in tied pubs. This implies that consumers in free houses paid less for the same beer that they could drink in tied pubs. So putting it round the other way, is the tied pub a means whereby brewers can practise price discrimination? This may be a loaded way of expressing what is going on in this market. The article in <i>The Mail on Sunday</i> saw the situation more as brewers needing to dispose of beer that cannot be sold in tied outlets.</p> <p>6 marks for relevant analysis and 4 marks for evaluation.</p>	
(c)(i)	<p>The table shows a fall during the period 1970-95. The fall is not a totally consistent one but after 25 years one-third of the brewing companies in 1970 were no longer independent concerns. This requires candidates to consider the problem facing small brewers who did not enjoy the available scale economies in production, distribution and marketing that one must presume helped the five national brewers to come to dominate the industry.</p> <p>The article suggests that there was a clear contrast in the relative profitability of beer production and beer retailing. This is illustrated in the table. The brewers' profit of 6p on a wholesale price of 70p is 8.5%. The pub profit of 21p on a mark-up of 74p (£1.44-0.70) is 28%.</p> <p>6 marks for application and analysis and a further 2 marks for evaluation</p>	10
(ii)	<p>Despite the falling numbers of brewers some small firms may still be able to thrive due to support from a few local public houses and/or tied outlets. Beer is costly to distribute (the table shows this) and it may be that some very locally-based brewers can distribute beer at less than the 21% implied distribution cost shown in the article. Low prices for some beers or even premium priced beer for 'niche' products may also explain why some small brewing concerns can continue in existence against the apparent long-term trend of a shrinking number of independent brewing firms.</p> <p>Up to 4 marks for application and analysis, up to 5 marks for evaluation.</p>	9

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 4

Assessment Objectives Grid

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
SECTION A					
Qu.1	2	2			4
Qu.2	2	1	1		4
Qu.3	2	1	1		4
Qu.4	2		2		4
Qu.5	2	1	1		4
Qu.6	1	1	1	1	4
Qu.7	1	1	1	1	4
Qu.8	1	1	1	1	4
Qu.9	1	1	1	1	4
Qu.10	1	1	1	1	4
Total	15	10	10	5	40
as % of marks	37.5	25	25	12.5	
SECTION B					
Qu.11(a)	1	2	1	1	5
Qu.11(b)	2	4	0		6
Qu.11(c)(i)	1	1	3		5
Qu.11(c)(ii)		2	4	3	9
Qu.11(d)	1	1	2	5	9
Qu.11(e)			4	2	6
Total	5	10	14	11	40
Qu.12(a)(i)	2	2			4
Qu.12(a)(ii)	1	2	1		4
Qu.12(b)(i)	2	2	1		5
Qu.12(b)(ii)			6	4	10
Qu.12(c)(i)		2	4	2	8
Qu.12(c)(ii)		2	2	5	9
Total	5	10	14	11	40
Section B as % of marks	12.5	25	35	27.5	
Sections A & B as % of total marks	25	25	30	20	

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

EDEXCEL

ADVANCED GCE

ECONOMICS - UNIT 5

MARK SCHEME

General Points

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Marks within levels are determined by examiner judgement based on both quality and quantity of work.

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ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

UNIT 5A - Labour Markets

Question	Scheme	Marks
1. (a)	Level 5	(7-10)
	<p>Understanding of the concepts ‘absolute’ and ‘relative’ poverty i.e. absolute poverty occurs when individuals have insufficient resources for survival whereas relative poverty refers to those whose incomes are well below the average, e.g. the poorest 20% of society.</p> <p>It might be argued that absolute poverty is of more concern to a government because it implies that people are dying of malnutrition etc.</p> <p>The concept of relative poverty is of less value in the sense that a poor country ‘that distributes its squalors evenly would have no poverty’. However, to the extent that it measures the changes in the proportion of people earning less than a certain percentage of average earnings, it can indicate the impact of changes in the economy, e.g. as a result of tax changes or changes in unemployment.</p> <p>It should be noted that although more people might be relatively poor, few of them are the same as those in 1979.</p> <p>A clear definition of the terms, together with points concerning their significance, is required for a Level 5 mark.</p>	
	Levels 1-4	0-6
	<p><i>You should award marks according to the performance criteria and the conversion table relating to a 10 mark base.</i></p>	

10

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
1. (b)	<p>Level 5</p> <p>The table suggests that the disposable incomes of the top decile of income earners have increased the most during the period 1979-94. Those people below the top decile have smaller increases in disposable income while the bottom decile of income earners experienced a fall in their incomes. However, the following points should be noted:</p> <ul style="list-style-type: none"> • the data might be inaccurate (especially in view of the information that expenditure by the bottom decile has increased significantly). • lower income groups have more material possessions than in 1979. <p>Therefore, the evidence is rather contradictory with respect to the bottom decile.</p> <p>There might be more inequality but most of those in the lowest decile have more material possessions. The exceptions are the homeless and those who remained in the lowest decile since 1979. For a level 5 mark candidates must explain the meaning of the statement and use the evidence to demonstrate its validity making reference to at least one problem in interpreting the information.</p> <p>Levels 1-4</p> <p><i>You should award marks according to the performance criteria and the conversion table relating to a 10 mark base.</i></p>	<p>(7-10)</p> <p>(0-6)</p> <p>10</p>

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
1. (c)	Level 5	(14-20)

Policies could include TWO of the following:

- a national minimum wage;
- an increase in progressive taxation by raising the marginal income tax rates and increasing the number of bands;
- more means-tested benefits.

In each case the effectiveness of the policy as a means of reducing inequality must be examined.

National minimum wage:

- would raise the wages of those on the lowest incomes;
- likely to reduce wage differentials.

BUT:

- it might increase unemployment, and in any case, might not benefit those previously unemployed;
- might only have a limited impact on poverty because those on low wages are not necessarily in low income households.

Progressive taxation:

- would take a larger percentage of income in tax from high income households;
- would provide additional revenue for the government to use in transfer payments.

BUT:

- might act as a disincentive to work;
- would not directly help the unemployed.

Means-tested benefits:

- provide a safety net for low income households;
- therefore they help to reduce the inequality in income distribution.

BUT:

- many of these benefits are not claimed by those entitled to them;
- the rules governing some of these benefits (e.g. Job Seekers' Allowance) means that some people needing benefits will be denied them.

For a Level 5 mark, two relevant policies must be identified

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Mark
	together with an explanation of how they might reduce inequality. There should be some evaluation of the effectiveness of policies.	(0-13)
	Levels 1-4	
	<i>You should award marks according to the performance criteria and the conversion table relating to a 20 mark base.</i>	
		20

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
1. (d)	Level 5	(14-20)
	<p>The meaning of the concepts ‘an increase inequality’ and ‘economic growth’.</p> <p>More inequality provides incentives:</p> <ul style="list-style-type: none"> • for workers to progress in their careers in order to achieve higher incomes; • for entrepreneurs to take risks especially with reference to investment decisions; • might make workers more willing to forego leisure in order to work (income and substitution effects). <p>However, increased inequality might sharpen divisions in society and lead to the creation of an underclass which contributes little to, and gains little from, economic growth.</p> <p>Nevertheless, for the profit motive to operate effectively some degree of inequality may be desirable. The debate really centres on how much inequality is necessary to increase the rate of growth of a country.</p> <p>For a Level 5 mark candidates must explain the concepts; discuss the circumstances in which increased inequality increases growth and the reasons why this might not be the case. There should be an evaluation of the arguments.</p>	
	Levels 1-4	(0-13)
	<p><i>You should award marks according to the performance criteria and the conversion table relating to a 20 mark base.</i></p>	

20

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
2. (a)	Level 5 This part of the question seeks a response based somewhat on the text and also on the graphs, but even so the text is more about the labour market in general terms than trade unions in particular. But the combination of the stimulus materials should prompt a consideration of at least three of the following aspects of trade union membership: <ul style="list-style-type: none">• The changing sectoral composition of the workforce showing the relative decline of manufacturing where trade unions have been more strongly supported than in the case of the service sector.• The impact of privatisation which, as the text makes clear, has had a major impact on the numbers employed and thus of trade union membership.• The impact of employment legislation — five Acts of Parliament which have limited picketing rights, weakened the impact of the closed shop, required pre-strike ballots and reduced the immunity of trade unions from legal challenges.• The growing trend to part-time working which does not favour trade union membership.• Both these previous two points identify a significant change in the employer/employee relationship within the last decade and a half which undermined the traditional appeal and perceived role of how union membership can help protect the rights and concerns of those employed.• The state of the macro economy may affect union membership. If the economy is booming, is membership seen as vital? If there is a recession and uncertainty over job retention, is union membership seen as helpful or the reverse?• Union membership would be expected to fall if there is a rise in the proportion of women in the workforce.• Membership will be affected by the changing legal situation on recognising rights of unions.	(7-10)

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

	Scheme	Marks
Question	Levels 1-4	(0-6)
<i>You should award marks according to the performance criteria and the conversion table relating to a 10 mark base.</i>		10

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
2. (b)	Level 5	(14-20)

Explanations can include the following aspects of the growth in female employment:

- the structural changes in the UK economy with the relative decline in the primary and secondary sectors of the economy which were ones predominantly with male employees given both some explicit expectation of males being required in farm and factory-based jobs.
- the growth of the tertiary sector which has offered in particular increased possibilities of female participation in the work force.
- some employers have favoured using part-time employees to minimise the cost of employment that would follow if full-time staff were employed as a result of legislation that has tended to give more protection for full-time employees.
- female part-time work has increased in part due to changes in social attitudes to women working since the early 1970s.
- these changes in social attitudes to working have thus helped change the supply of labour which has made such a difference to the activity rate of women, particularly in the tertiary sector of the economy.
- candidates could legitimately refer to the changed numbers of female employment being encouraged by the falling real cost of household appliances (washing machines, microwave ovens etc) which has made it easier to combine a career with looking after a family.
- the greater availability of crèches, nursery education and child minders has facilitated the growth in part-time and full-time employment.

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
	<p>As regards the decline in male employment levels since 1972 (about three million less by 1996):</p> <ul style="list-style-type: none">• the process of deindustrialization which has seen the relative decline of the manufacturing sector which hitherto had been a major source of male employment. Relevant contributory factors include competition from overseas sources of supply and the favourable impact of a high exchange rate at various times since 1972.• The decline in the size of the coal industry in recent years.	
	Levels 1 – 4	(0-13)
	<i>You should award marks according to the performance criteria and the conversion table relating to a 20 mark base.</i>	20

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
2. (c)	Level 5	(14-20)

The chart shows that women's weekly average earnings as a percentage of men's earnings vary between about 50% (Netherlands, Switzerland and the UK) and 70% or more (such as in Italy, Denmark and France).

The text (lines 16-17) makes clear that this sex differential is not explained by a comparison of part-time earnings by females with those of men but relates to full-time working.

Relevant factors include:

- employers discriminating against women
- fewer women in the top jobs, hence depressing the average earnings of women compared to men
- the so-called 'dual labour market' thesis that holds that the effect of women tending to seek a relatively narrow band of jobs depresses their pay compared to what otherwise would be the case
- differences in qualifications and work experience of men and women that have the effect of depressing average earnings of women, e.g. career breaks by women raising a family and thus losing out on a continuous involvement in the labour market.

Levels 1 – 4

(0-13)

You should award marks according to the performance criteria and the conversion table relating to a 20 mark base.

20

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
2. (d)	Level 5	(7-10)
<p>This last part of the question is quite a searching one. There is nothing in the passage on EU labour market policies. The final part of section E6 in the syllabus refers to ‘economic integration with Europe’ and in particular the guidance notes refer to ‘migration and mobility and knowledge of initiatives such as the European Social Chapter’. This could include the issue of maximum working hours and measures relating to employment protection. Both of these could have implications for the male-female differentials.</p> <p>Candidates who genuinely attempt to consider how economic integration in Europe may have some impact on the wage differentials between men and women deserve appropriate credit. The subject matter is relatively abstract at least as compared with the earlier parts of this question.</p>		
	Levels 1-4	(0-6)
<p><i>You should award marks according to the performance criteria and the conversion table relating to a 10 mark base.</i></p>		
		10

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

UNIT 5B - Economic Development

Question	Scheme	Marks
3. (a)	Level 5 Response offers a distinction between absolute poverty and relative poverty. <ul style="list-style-type: none">• absolute poverty is defined with reference to the passage in paragraph one.• the burden of poverty is identified (as is implied in the penultimate paragraph of the passage) with reference to: women in general and especially girls (in terms of educational opportunities); those in rural areas as compared with those in towns and cities (the data helps candidates to make this point).• relative poverty is perceived as referring to the disparity in per capita incomes across the world. For high marks candidates should draw on the data provided or expand on the text so as to highlight the concept of absolute poverty.	(7-10)
	Levels 1–4 <i>You should award marks according to the performance criteria and the conversion table relating to a 10 mark base.</i>	(0-6) 10

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
3. (b)	Level 5	(14-20)

Response offers a convincing discussion of how economic growth may not bring an improvement in living standards for all people in developing countries:

- the ‘trickle-down’ mechanism works but it is an unreliable way of spreading the benefits of rising incomes throughout the whole society.
- the poor do not get the access to direct means of improved living standards which in line 21 of the passage Gerald Meier calls ‘rent-producing favours’.
- Meier sees a vicious circle of inappropriate policies leading to slow growth which perpetuates poverty. Implicit here is the absence of any trickle-down mechanism at work.
- Michael Lipton coined the concept of urban bias in his book *Why Poor People Stay Poor* (1976) to analyse why those in rural areas tend to lose out in terms of the benefits of economic progress.

The penultimate paragraph in the passage refers to other aspects which account for poverty:

- labour-saving techniques lead to unskilled labour being unable to retain jobs
- the poor spend heavily on food and urban housing, neither of which are helped by technical change or productivity gains such that they become relatively cheaper in household budgets
- inflation tends to be higher in many developing countries than in developed countries and thus will be particularly adverse for those in the lowest income groups.

Alternative discussion could include:

- the problem of population growth outrunning the growth of GNP
- the poor suffer from a polluted environment when some jobs are created in urban areas, but unlike the rich they are unable to distance themselves from the adverse living conditions.

A Level 5 outcome does not require all these points to be made.

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
	Levels 1-4	(0-13)
	<i>You should award marks according to the performance criteria and the conversion table relating to a 20 mark base.</i>	
		20

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
3. (c)	Level 5	(14-20)

Response offers a convincing *examination* of relevant policies which might increase the rate of economic growth including:

- greater investment in human capital (which is mentioned in the final paragraph of the passage) including improvements in educational opportunities (especially for girls); better health provision (to sustain work); better diets (which would also improve the capacity of the poor to be more productive)
- policies to boost agricultural productivity and income which might include land reform, advice on agricultural techniques, marketing advice and, in the light of the passage, a foreign exchange rate regime that is not biased against the agricultural sector
- market-orientated, outward-looking trade and exchange rate policies
- policies to encourage entrepreneurship and private sector inflows
- policies to make full use of labour. For example it has been found that financial sources such as banks are biased against making loans to women
- the last sentence in the passage suggests that foreign aid donors could do more to help the poor. Governments could therefore consider how such donors, regional development banks and the IBRD could channel money and energy into small scale projects which eschew the political attractiveness of ‘show’ projects in urban areas or prestige projects like dams but nonetheless may have a more effective impact on relieving rural poverty
- privatisation.

Levels 1-4

(0-13)

You should award marks according to the performance criteria and the conversion table relating to a 20 mark base.

20

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
3. (d)	Level 5	(7-10)

There is a need here for candidates to explain the rationale of private capital flows:

- Governments need to make an effort to secure such capital given the many alternatives available to MNCs. Will this requirement help promote development rather than simply waiting for charity from Western governments? Will aid merely prop-up a corrupt regime? Will the funds really be directed to the intended good causes? In contrast, an MNC will have an incentive to use its capital to advantage given the need to provide shareholders with regular dividends.
- MNCs can help generate tax revenue, provide technology, skilled management and links with the developed world to help boost not only local production but also export revenues.

The question seeks a view on why private capital flows are potentially ‘more effective’ than aid. Thus, responses that wholly denigrate the role of aid do not fully meet the trust of the question. Moreover both types of capital can contribute to filling ‘the savings-investment gap’ and ‘the foreign exchange gap’.

Levels 1-4 **(0-6)**

You should award marks according to the performance criteria and the conversion table relating to a 10 mark base.

10

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
4. (a)	Level 5	(7-10)
	<p>Response offers a convincing portrait of the contrasting economic performance of sub-Saharan Africa compared with the rest of the developing world in terms of sluggish economic growth rates, as illustrated in the figure of real GNP. This shows that since 1970 the African sub-continent has been left behind by both Latin America and Asia which, since 1980, has exhibited a most impressive growth record.</p> <p>Africa, in contrast, has been unable to maintain a continuous record of economic growth. Latin America witnessed a clear check to its rate of economic growth at the start of the 1980s.</p>	
	Levels 1-4	(0-6)
	<p><i>You should award marks according to the performance criteria and the conversion table relating to a 10 mark base.</i></p>	10

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
4. (b)	Level 5	(7-10)
<p>Investment is widely regarded as a major factor in causing economic growth. Additional physical capacity provides the means whereby more goods and services can be produced and sold. But investment in <i>human capital</i> may be as important as fixed capital formation. If there is an improvement in the quantitative and qualitative stock of human capital then the productive potential of the economy should be enhanced.</p> <p>The final paragraph in the passage makes it clear that the Asian ‘tiger’ economies have been characterised by high savings ratios which have financed a much higher proportion of GDP devoted to investment than typically has been the case in Africa.</p> <p>In addition sub-Saharan African countries not only have low domestic investment but also little foreign direct investment as is made clear in paragraph 4 of the passage. Thus there is double disadvantage when foreign capital domestically finances capital stock.</p>		
Levels 1-4		(0-6)
<p><i>You should award marks according to the performance criteria and the conversion table relating to a 10 mark base.</i></p>		

10

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
4. (c)	Level 5	(14-20)
	<p>Response offers a convincing explanation of the relatively poor performance of sub-Saharan Africa in the 1980s drawing on the first paragraph of the passage to show how the following policies were unsuitable:</p> <ul style="list-style-type: none"> • state marketing boards (acted to frustrate both agricultural output and food exports) • over-valued exchange rates (whilst they reduced the cost of imports, they also acted to penalise exporting and thus further discouraged the earning of foreign exchange) • import tariffs and quota controls (which acted to curb the competitive stimulus provided by imports and hence encourage inefficiency) • state run industrial enterprises (which were overmanned, operated at a high cost due to low capacity utilisation, and did not seek to maximise the opportunities from international trade). 	
	Level 1-4	(0-13)
	<p><i>You should award marks according to the performance criteria and the conversion table relating to a 20 mark base.</i></p>	20

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Question	Scheme	Marks
4. (d)	<p>Level 5</p> <p>Response offers the required high standard of evaluation of structural adjustment policies (SAPs) in Africa. The passage refers to six countries which, on average, managed to boost output, exports, savings and income per head; Ghana was the ‘star’ performer.</p> <ul style="list-style-type: none"> • However a further 23 countries in sub-Saharan Africa performed less well. • Even the six ‘successful’ countries offered no consistent case of SAPs working ‘unambiguously in the right way’. • The ability to finance domestic investment from domestic savings is limited by the low levels of income in Africa (a vicious circle relationship) • Tight monetary policies mean high real interest rates which discourage industrial activity which would help boost economic growth. • The removal of tariff protection may spur competitiveness but has the effect of curbing new firms taking root (the infant industry case). • SAPs have led to reduced spending on health and education which adversely hit the relatively poor and act perversely in terms of the supply side of the economy. <p>Levels 1-4</p> <p><i>You should award marks according to the performance criteria and the conversion table relating to a 20 mark base.</i></p>	<p>(14-20)</p> <p>(0-13)</p> <p>20</p>

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

Assessment Objectives Grid – Unit 5A

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
Qu.1(a)	2	3	2	3	10
Qu.1(b)	2	2	2	4	10
Qu.1(c)	2	2	8	8	20
Qu.1(d)	3	2	6	9	20
Total	9	9	18	24	60
as % of marks	15	15	30	40	100
Qu.2(a)	4	4	2	0	10
Qu.2(b)	3	2	7	8	20
Qu.2(c)	2	2	7	9	20
Qu.2(d)		1	2	7	10
Total	9	9	18	24	60
as % of marks	15	15	30	40	100

Assessment Objectives Grid – Unit 5B

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
Qu.1(a)	4	3	3	0	10
Qu.1(b)	2	2	7	9	20
Qu.1(c)	2	3	6	9	20
Qu.1(d)	1	1	2	6	10
Total	9	9	18	24	60
as % of marks	15	15	30	40	100
Qu.2(a)	2	2	2	4	10
Qu.2(b)	1	2	4	3	10
Qu.2(c)	3	2	7	8	20
Qu.2(d)	3	3	5	9	20
Total	9	9	18	24	60
as % of marks	15	15	30	40	100

GCE ECONOMICS SPECIMEN PAPER

Mark Scheme – Unit 5

ADVANCED GCE ECONOMICS MARKING SCHEME

GENERAL GUIDELINES

The following 'Levels of Performance Table' should be used in conjunction with the indicative content for each question to establish the appropriate level of achievement and number of marks to be awarded to each candidate. The performance criteria are based on 4 assessment objectives for the specification overall.

Mark Band	Performance criteria	Quality of Written Communication
Level 5 70-100	<ul style="list-style-type: none"> - Displays a wide ranging knowledge of economic principles, concepts and theories together with a rigorous analysis of issues. - Demonstrates skill in interpreting different types of data and an outstanding ability to select and apply economic ideas both to economic problems and to data. - Evaluation is well balanced and critical, leading to valid conclusions. - Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated. - At this level excellence is displayed across all the assessment objectives. 	Level 5 / 4 Will use a form and style of writing completely appropriate to purpose and complexity of subject matter; relevant information is clearly and coherently organised with excellent use of economics terminology; text is legible with excellent spelling, punctuation and grammar.
Level 4 60-69	<ul style="list-style-type: none"> - Displays a very good answer based on knowledge of economic principles, concepts and theories together with an analysis of the issues involved. - Demonstrates skill in interpreting data, and an ability to select and apply economic ideas, relating them both to economic problems and to data. - Alternative approaches are evaluated, leading to reasoned conclusions which are presented in a relevant, coherent and integrated way. 	Level 3 Will use a form and style of writing reasonably appropriate to purpose and complexity of subject matter; relevant information is well organised with good use of economics terminology; text is legible with good spelling, punctuation and grammar.
Level 3 50-59	<ul style="list-style-type: none"> - Displays good knowledge with a sound understanding of economic principles, concepts and theories as well as some analysis of issues. - Can interpret data and select and apply some economic ideas, relating them to economic problems and to data. - Uses different approaches in order to reach conclusions, presenting evidence in a relevant and coherent way. 	
Level 2 40-49	<ul style="list-style-type: none"> - Displays some knowledge of economic principles, concepts and theories with an attempt at providing an analysis of alternative views. - Some ability to use data and to select and apply economic ideas, relating them to economic problems and to data. - Uses different approaches to reach conclusions, presenting evidence with some relevance and coherence. 	
Level 1 0-39	<ul style="list-style-type: none"> - Displays basic knowledge presented as facts without taking account of the context. - Demonstrates limited understanding and analysis. - Attempts at selecting, applying, evaluating and presenting material are modest or implicit. - None of the assessment objectives are covered satisfactorily. - Better scripts in this category will contain a few relevant facts but without development. - Evidence of complete misunderstanding and serious errors. - More usually there is very little substance simply items of 'general knowledge'. 	Level 1 The writing form and style will not facilitate coverage of complex subject matter. Information is basic with limited use of terminology. There will be errors in spelling, punctuation and grammar.

GCE ECONOMICS SPECIMEN PAPER
Mark Scheme – Unit 5

CONVERSION TABLE FOR UNIT 5 QUESTIONS

	MARK OUT OF 20	%	MARK OUT OF 10	%
Level 5	19 18 17 16 15 14	95 90 85 80 75 70	9 8 7	90 80 70
Level 4	13 12	65 60	6	60
Level 3	11 10	55 50	5	50
Level 2	9 8	45 40	4	40
Level 1	7 6 5 4 3 2	35 30 25 20 15 10	3 2 1	30 20 10

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

EDEXCEL

ADVANCED GCE

ECONOMICS – UNIT 6
(THE SYNOPTIC UNIT)

MARK SCHEME

General Points

The scheme tries to provide a range of likely relevant responses to the questions set. All relevant responses are worthy of marks, it is important to reward good work even if it is not referred to explicitly in the mark scheme. **Valid original responses call for high marks.**

Points made should be ticked in the body of the script and marks placed in the right hand margin.

Marks within levels are determined by examiner judgement based on both quality and quantity of work.

Do not be reluctant to use the full mark range and, especially, do not shy away from awarding maximum marks. The candidates are working under great pressure; consider what might be judged excellence in such circumstances.

Be careful not to be severe in awarding marks to candidates answering questions within your own area of expertise. Conversely, avoid being too generous in less familiar areas.

The total marks for each question should be circled and also entered on the front of the answer book.

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Examiners should bear in mind that all the questions in this unit are synoptic in nature and offer candidates the opportunity to demonstrate knowledge and understanding:

- 1. across a range of economic subject matter;**
- 2. of connections between the different aspects of economics in the specification.**

Synoptic content, ie, that which refers to topics covered in previous units, is incorporated into the indicative content set out below.

Question	Scheme	Marks
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Qu.1

- (a)** *Examine two ways in which joining a monetary union imposes constraints on the UK government's macroeconomic policy options.*

Level 5

The main constraints likely to be identified are:

- loss of control over interest rates
- the impossibility of devaluation
- less control over fiscal policy (reference might be made to the recent controversy concerning tax harmonisation).

Any two of these points should be explained, eg, a country whose goods are uncompetitive would not be able to devalue its currency. If only one point is explained then award up to **19 marks** (top of **Level 2**).

40

- (b)** *Examine the benefits to a country of being a member of a monetary union.*

Benefits of membership of a monetary union:

- elimination of transaction costs (although conversion costs will be considerable)
- the uncertainty associated with fluctuating exchange rates will be removed, so encouraging trade between member countries
- price transparency ie, it is easier for consumers to compare prices of particular goods in the member countries
- greater macroeconomic stability, ie, one central bank will set interest rates for all members (at present relatively low) probably with the aim of achieving a low rate of inflation
- increased specialisation and trade is likely to lead to higher GDP; therefore living standards are likely to rise
- possibility of a wider range of goods and lower prices

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
	<ul style="list-style-type: none"> increased foreign direct investment from firms in countries outside the monetary union. <p>Level 5</p> <p>A level 5 response should <u>examine</u> at least four points, ie the points should be identified and explained, and there should be some comment on their significance.(42-60 marks)</p> <p>If there is no comment on the significance of the points made, then award up to 35 marks (top of Level 3).</p> <p>Typically, a Level 2 response (24-29 marks) might make reference to two points in a superficial way.</p>	60
Qu.2		
(a)	<p>Discuss the sources of conflict between the European Union and other trading blocs.</p> <p>Level 5</p> <p>Definition/explanation of the term ‘trading blocs’.</p> <p>Possible sources of conflict:</p> <ul style="list-style-type: none"> accusations of unfair trading, eg, EU dumping food surpluses on world market subsidies given to producers within one trading bloc resulting in artificially low prices (and, therefore, unfair competition) protectionist measures taken by one trading bloc, denying free access to their market by EU and other countries. <p>Consideration of three possible sources of conflict for a Level 5 mark together with an accurate understanding of the term ‘trading blocs’.</p> <p style="text-align: right;">(28-40 marks)</p> <p>One factor explained well could be rewarded with Level 2 (16 marks)</p>	40

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
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(b)	<i>Examine the economic effects of abandoning tariff barriers in the world economy.</i>	
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Level 5

The elimination of tariff barriers could have the following effects:

- an increase in world trade (this point could be illustrated by means of a diagram)
- increased world output and living standards associated with increased specialisation. Candidates should explain the significance of the law of comparative advantage
- more efficient allocation of resources
- possibility of a more unequal distribution of world income, ie, those countries with a competitive advantage in many products will become richer at the expense of less efficient countries
- some trading blocs would face significantly higher unemployment in industries which were previously protected, eg, agriculture in the EU
- lower prices for consumers.

For a Level 5 mark, candidates should explain clearly the impact of the elimination of tariffs on prices of goods, explain the significance of the law of comparative advantage, and consider two other effects. **(42-60 marks)**

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
-----------------	---------------	--------------

Qu.3

- | | | |
|------------|--|--|
| (a) | <i>Examine the reasons why companies like Samsung might decide to make such an investment in the UK.</i> | |
|------------|--|--|

Level 5

Reasons:

- to gain access to the EU market
- to take advantage of the relatively low labour costs; the flexible labour market; government grants; low land costs and room for expansion; pool of skilled labour
- to spread risks, i.e., to benefit from risk-bearing economies of scale
- to meet increased demands for its products in Europe
- to take advantage of the current sterling exchange rate.

Consideration of the labour aspect of this question plus one other aspect is sufficient for a Level 5 outcome. **(28-40 marks)**

Levels 1 – 4

You should award marks according to the performance criteria and the conversion table relating to the mark scheme. **(0-27 marks)**

40

- | | | |
|----------------|---|--|
| (b) (i) | Evaluate the economic effects of such an investment on
<i>(i) the UK's Balance of Payments</i> | |
|----------------|---|--|

Level 5

Impact on the UK's Balance of Payments

- initial impact is beneficial – on the capital account – because there will be a net inflow of foreign currency into the UK when the investment occurs.
- in the longer term money will flow back to South Korea in the form of interest, profits and dividends, causing an adverse effect on the current account
- however, if goods are exports from the Samsung factory in the UK to the rest of Europe, then the visible balance (and current account) will improve.

Both the positive and negative effects on the Balance of Payments must be considered for a Level 5 mark. **(21-30 marks)**

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
	<p><i>Levels 1 – 4</i></p> <p>You should award marks according to the performance criteria and the conversion table relating to a mark scheme. (0-20 marks)</p>	30
(b) (ii)	<p>Evaluate the economic effects of such an investment on: <i>(ii) the UK's national income</i></p> <p><i>Level 5</i></p> <p>Impact on UK's national income.</p> <p>Discussion of the multiplier effect of an increase in investment on national income.</p> <p>AD/AS analysis may also be used; it could be argued that this investment would increase both AD and AS, leading to an increase in real national income.</p> <p>Candidates are likely to illustrate this diagrammatically.</p> <p>A Level 5 mark should only be awarded if the significance of the multiplier is included in the answer.</p> <p><i>Levels 1 – 4</i></p> <p>You should award marks according to the performance criteria and the conversion table relating to the mark scheme. (0-20 marks)</p>	30

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
Qu.4		
(a)	<p><i>Describe the mechanism by which 'short- term (interest) rates seem to have a clear effect on spending, even if the effect can be delayed at times'.</i></p> <p>Short-term interest rates affect consumption, savings and borrowing, eg, an increase in interest rates might lead to an increase in the MPS because the opportunity cost of spending has risen. Further, it will become more expensive to borrow money from banks to finance expenditure. Also higher interest rates lead to an increase in mortgage interest rates which decrease the discretionary incomes of households.</p> <p>The effect of a change in interest rates might be delayed if, eg, households' mortgage rates are only charged annually.</p>	6
(b)	<p><i>Discuss why the author suggests that fiscal policy is a less effective method of influencing spending than monetary policy.</i></p> <p>A cut in income tax would be ineffective in increasing spending if the increased disposable income was saved, whereas monetary policy, eg, a cut in interest rates, acts as a significant incentive to increase spending.</p>	6
(c)	<p><i>Explain why 'a conflict can arise because the main instrument of policy, short term interest rates, affects many people'.</i></p> <p>Examination of the impact of higher interest rates on the housing market, ie, increases in mortgage interest rates reduce the demand for houses and could cause a fall in their price.</p> <p>Examination of the impact of higher interest rates on exporters: value of the pound will increase against other currencies, making UK goods less competitive. As a result the price of imports decreases and the price of exports rises. This will have an adverse effect on exporters.</p>	6

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
(d)	<p><i>Examine the significance of the interest elasticity of demand for bank loans for the operation of monetary policy?</i></p> <p>This part highlights the synoptic nature of this unit. It takes a micro concept – elasticity – but puts it into a macro context. It is a rather unusual context for the use of elasticity but an entirely valid one.</p> <p>If demand for bank loans is interest inelastic, then changes in interest rates will have little impact on this demand. Consequently, monetary policy would be very ineffective.</p> <p>In contrast, if demand for bank loans is income elastic then this demand will be very sensitive to changes in interest rates.</p>	6
(e)	<p><i>Evaluate the extent to which supply side policies might ‘strengthen the long-term performance of the economy’?</i></p> <p>Definition of supply side policies, ie, those designed to increase incentives to work and competitiveness in order to increase efficiency.</p> <p>Examples include: education and training (designed to increase the productivity of the workforce) incentives for investment (designed to increase productivity) cuts in marginal tax rates (designed to increase incentives to work).</p> <p>2 marks for knowledge and application 3 marks for analysis up to 7 marks for evaluation</p>	12
(f)	<p><i>Examine two problems experienced by a country when its currency joins a fixed exchange rate system such as the ERM at ‘too high a rate’ (line 5).</i></p> <p>When a country joins the ERM at ‘too high a rate’ it implies that its goods will be uncompetitive because export prices will be high and import prices will be low. In turn, this could lead to:</p> <ul style="list-style-type: none"> • a Balance of Payments deficit on current account • unemployment in domestic industries. <p>For each policy – 2 marks for knowledge and application plus up to 2 marks for analysis and evaluation.</p>	8

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

- (g)** *How might 'loose monetary control with tighter fiscal policy' (lines 9-10) have helped export-led recovery?*

Loose monetary policy implies relatively low interest rates, while tighter fiscal policy implies higher taxes and/or lower public expenditure (**2 marks** for the meaning of the term in quotation marks).

Loose monetary policy should help to prevent an increase in the value of the pound, which would reduce the competitiveness of UK goods.

A tight fiscal policy might reduce disposable income (ie if income tax rates were increased). This would reduce consumption, including the consumption of imports. Also, British firms faced with falling demand would have an incentive to divert goods to the export market. (**4 marks** for analysis).

6

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
Qu.5	<i>Examine the importance of tourism to the UK economy.</i>	
(a)	<p>Definition of the multiplier (a change in the level of injections brings about a relatively greater change in the level of national income):</p> <p>Tourists from abroad should be analysed with reference to information provided in the passage; eg on particular industries and employment, and the phrase ‘tourism stimulates further spending elsewhere in the economy...’</p> <p>NB: Both direct and indirect effects must be considered for full marks. 4 marks for knowledge and application. Up to 6 marks for analysis and evaluation.</p>	10
(b)	<p><i>Discuss two arguments you could use in support of the case for the UK government promoting the tourism industry in the UK.</i></p> <p>Arguments to support UK government promotion of tourism: to provide employment; and so reduce unemployment to gain foreign currency earnings; and thus help reduce a Balance of Payments deficit to gain tax revenues (and so reduce the Public Sector Borrowing Requirement) for foreign visitors’ expenditure in the UK.</p> <p>2 marks for identifying relevant arguments plus up to 4 marks for further elaboration</p>	6
(c)	<p><i>It has been argued that the growth of tourism has an adverse effect on the local environment. Examine two policies which the UK government could adopt in recognition of this problem.</i></p> <p>Possible policies include:</p> <ul style="list-style-type: none"> • tourist tax on the ‘polluter pays’ principle • investment in public transport • promotion of tourist attractions outside London by advertising. <p>Any two policies explained well in terms of their potential effectiveness can score up to 10 marks</p> <p>2 marks for identification of relevant policies, 4 marks for application and analysis. Up to 6 marks for their evaluation.</p>	12

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
(d)	<p><i>Analyse three factors that affect the demand for travel abroad by UK residents.</i></p> <p>Possible factors include:</p> <ul style="list-style-type: none"> • exchange rate of £ against other currencies • availability and cost of ‘package’ holidays • availability and cost of airline services • real incomes in the UK (demand for foreign holidays is income elastic). • availability and cost of holidays in the UK • weather in the UK • time of year • windfalls from company floatations <p>For each point the analysis must offer a convincing analysis of how demand is affected.</p> <p>3 marks for identification of relevant factors. 6 marks for relevant analysis.</p>	9
(e)	<p><i>Why did some economists consider that devaluation ‘would result in a higher rate of inflation and have no lasting effect on the real economy’ (lines 2-3).</i></p> <p>Devaluation results in an increase in the starting price of imports into the UK. This would result in ‘imported inflation’, and higher import prices of manufactured goods could trigger demands for higher wages leading to a wage price spiral.</p> <p>Ultimately, the competitive advantage gained from devaluation would be lost, with the foreign currency price of UK exports rising to their original levels.</p> <p>For full marks reference should be made to both imports and exports 2 marks for knowledge and application. 2 marks for analysis. 3 marks for evaluation.</p>	7

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Question	Scheme	Marks
(f)	<p><i>Under what circumstances would you expect devaluation to result in 'a falling rate of unemployment and a reduced current account deficit' (lines 6-7)?</i></p> <p>Devaluation increases the competitiveness of UK goods. Therefore, demand for UK exports will increase and demand for foreign imports will fall. However, employment will only increase if there is spare capacity in the economy and if new orders cannot be met from existing capacity.</p> <p>A reduction in the current account deficit will only occur if the Marshall-Lerner condition is met, ie, if the sum of the PEDs for imports and exports is greater than one.</p> <p>Other conditions: that devaluation should not result in inflation that other countries should not devalue their currencies that the supply of exports should be elastic.</p> <p>2 marks for knowledge and application. 2 marks for analysis. 2 marks for evaluation.</p>	6

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

Assessment Objectives Grid

Section	Knowledge %	Application %	Analysis %	Evaluation %	TOTAL %
SECTION A					
Qu.1(a)	10	10	12	8	40
Qu.1(b)	10	10	18	22	60
Total	20	20	30	30	100
Qu.2(a)	10	10	14	6	40
Qu.2(b)	10	10	16	24	60
Total	20	20	30	30	100
Qu.3(a)	10	10	13	7	40
Qu.3(b)	10	10	18	22	60
Total	20	20	31	29	100
N.B. Mark out of 100 divided by two to yield a figure that with 50 marks from Section B is equally weighted to be a percentage mark.					
SECTION B					
Qu.4(a)	2	3	1	0	6
Qu.4(b)	2	1	1	2	6
Qu.4(c)	1	1	2	2	6
Qu.4(d)	1	1	2	2	6
Qu.4(e)	1	1	3	7	12
Qu.4(f)	2	2	2	2	8
Qu.4(g)	1	1	4	0	6
Total	10	10	15	15	50
Qu.5(a)	2	2	4	2	10
Qu.5(b)	1	1	2	2	6
Qu.5(c)	2	2	2	6	12
Qu.5(d)	3	2	4	0	9
Qu.5(e)	1	1	2	3	7
Qu.5(f)	1	1	2	2	6
Total	10	9	16	15	50
N.B. Mark out of 50 to be summed with that out of 50 for Section A.					
Section A and Section B as % of total marks	20	20	30	30	100

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

ADVANCED GCE ECONOMICS
MARKING SCHEME

GENERAL GUIDELINES

The following 'Levels of Performance table' should be used in conjunction with the indicative content for each question to establish the appropriate level of achievement and number of marks to be awarded to each candidate. The performance criteria are based on 4 assessment objectives for the specification overall.

Mark Band	Performance criteria	Quality of Written Communication
Level 5 70-100	<ul style="list-style-type: none"> - Displays a wide ranging knowledge of economic principles, concepts and theories together with a rigorous analysis of issues. - Demonstrates skill in interpreting different types of data and an outstanding ability to select and apply economic ideas both to economic problems and to data. - Evaluation is well balanced and critical, leading to valid conclusions. - Material is presented in a relevant, clear and coherent way with evidence fully and reliably integrated. - At this level excellence is displayed across all the assessment objectives. 	Level 5 / 4 Will use a form and style of writing completely appropriate to purpose and complexity of subject matter; relevant information is clearly and coherently organised with excellent use of economics terminology; text is legible with excellent spelling, punctuation and grammar.
Level 4 60-69	<ul style="list-style-type: none"> - Displays a very good answer based on knowledge of economic principles, concepts and theories together with an analysis of the issues involved. - Demonstrates skill in interpreting data, and an ability to select and apply economic ideas, relating them both to economic problems and to data. - Alternative approaches are evaluated, leading to reasoned conclusions which are presented in a relevant, coherent and integrated way. 	Level 3 Will use a form and style of writing reasonably appropriate to purpose and complexity of subject matter; relevant information is well organised with good use of economics terminology; text is legible with good spelling, punctuation and grammar.
Level 3 50-59	<ul style="list-style-type: none"> - Displays good knowledge with a sound understanding of economic principles, concepts and theories as well as some analysis of issues. - Can interpret data and select and apply some economic ideas, relating them to economic problems and to data. - Uses different approaches in order to reach conclusions, presenting evidence in a relevant and coherent way. 	
Level 2 40-49	<ul style="list-style-type: none"> - Displays some knowledge of economic principles, concepts and theories with an attempt at providing an analysis of alternative views. - Some ability to use data and to select and apply economic ideas, relating them to economic problems and to data. - Uses different approaches to reach conclusions, presenting evidence with some relevance and coherence. 	
Level 1 0-39	<ul style="list-style-type: none"> - Displays basic knowledge presented as facts without taking account of the context. - Demonstrates limited understanding and analysis. - Attempts at selecting, applying, evaluating and presenting material are modest or implicit. - None of the assessment objectives are covered satisfactorily. - Better scripts in this category will contain a few relevant facts but without development. - Evidence of complete misunderstanding and serious errors. - More usually there is very little substance simply 'items of 'general knowledge'. 	Level 1 The writing form and style will not facilitate coverage of complex subject matter. Information is basic with limited use of terminology. There will be errors in spelling, punctuation and grammar.

ADVANCED GCE ECONOMICS SPECIMEN PAPER
Mark Scheme Unit 6 – The synoptic unit

UNIT 6

Conversion of marks to percentages/levels

L E V E L	Mark Out of 20	%	Mark Out of 30	%	Mark Out of 40	%	Mark Out of 50	%	Mark Out of 60	%	Mark Out of 70	%	L E V E L
5	19 18 16 15 14	95 90 80 75 70	28 26 24 22 21	93 86 80 73 70	38 36 34 32 30 28	95 90 85 80 75 70	48 46 44 42 40 38 36 35	96 92 88 84 80 76 72 70	58 56 54 52 50 48 46 44 42	96 93 90 86 83 80 76 73 70	68 66 64 62 60 58 56 54 52 50 49	97 94 91 88 86 83 80 77 74 71 70	5
4	13 12	65 60	20 19 18	66 63 60	27 26 25 24	67 65 62 60	34 33 32 31 30	68 66 64 62 60	40 39 38 37 36	66 65 63 61 60	48 46 44 42	69 66 63 60	4
3	11 10	55 50	17 16 15	57 53 50	23 22 21 20	57 55 52 50	29 28 27 26 25	58 56 54 52 50	35 34 33 32 31 30	58 56 55 53 51 50	40 39 38 36 35	57 55 54 51 50	3
2	9 8	45 40	14 13 12	46 43 40	19 18 17 16	47 45 42 40	24 23 22 21 20	48 46 44 42 40	29 28 27 26 25 24	48 46 45 43 42 40	34 32 30 28	49 46 43 40	2
1	7 5 3 0	35 25 15 0	11 10 8 6 4 2 0	37 33 26 20 13 7 0	14 12 10 8 6 4 2 0	35 30 25 20 15 10 5 0	19 18 16 12 10 6 4 0	38 36 32 24 20 12 8 0	23 22 20 18 16 12 10 5 0	38 36 33 30 26 20 16 8 0	26 24 22 20 15 10 5 0	37 34 31 28 21 14 7 0	1

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