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# Mark Scheme (Results)
# January 2010

**GCE**

# GCE O Level Economics (7120/01)

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| Question Number | Answer | Mark |
|---|---|---|
| 1(a) | The alternative foregone.<br>Partial, vague definitions, 1 mark. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 1(b)(i) | Accept alternatives e.g. spending on defence, education. Also accept change in taxation e.g. it might fall if government didn't increase expenditure. | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 1(b)(ii) | Accept alternative: revising for examination | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 2(a)(i) | Each major change, 1 mark, reference to data, 1 mark. E.g. more older people (1 mark) e.g. in 2000 only about 3 million aged 85-89 but in 2050 expected to be about 30 million<br>e.g. more people in working population.<br>Birth rate has not fallen. | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 2(a)(ii) | Cause identified, 1 mark, development, 1 mark.<br>e.g. lower death rate (1 mark) due to better health care (1 mark).<br>Do not accept birth rate has fallen do accept migration. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 2(a)(iii) | The ratio of dependent population (the young and the elderly) (1 mark) to the working age population (1 mark). Also accept equation =<br><u>dependent population</u><br>working population<br>(ignore x100) | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 2(a)(iv) | Fall in dependency ratio as relatively more people in working population. Also accept explanation of dependency ratio staying the same. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 2(a)(v) | Each reason given for answer, 1 mark, development, up to 2 marks. E.g. good (1 mark) for economy as more people working to pay taxes (1 mark) and produce goods and services (1 mark).<br>Avoid double penalty if candidates suggest rising dependency ratio in **(a)(iv)**. | (3) |

| Question Number | Answer | Mark |
|---|---|---|
| 3(a)(i) | Savings: income not spent (1 mark)<br>Example: man earns £100, spends £80 savings = £20<br>Do accept withdrawal or leakage from circular flow for 1 mark but not as example.<br>Accept Income – consumption for 1 mark.<br>Accept saving to buy a new car as example as well as income = $20,000 spending $18000 therefore savings = $2000.<br>Do not accept "money deposited in bank" unless it is linked to a length of time or rate of interest. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 3(a)(ii) | Investment: purchase of capital equipment (1 mark)<br>Also accept "addition to capital stock" or "increase in producers' goods" 1 mark. "Injection into circular flow" 1 mark.<br>Example: a firm purchases a machine to make parts.<br>Do not accept something done for profit or buying shares or money invested in a firm. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 3(b)(i) | Injection | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 3(b)(ii) | Withdrawal | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 3(b)(iii) | It will rise, national income will increase/rise. | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 4(a) | Each benefit identified, 1 mark,<br>example/explanation 1 mark<br>e.g. they can share machinery e.g. an olive oil processing machine.<br>Can buy in bulk, e.g. fertilisers for soil.<br>Bargain for better prices for their goods when they act together. | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 4(b)(i) | Each way identified, 1 mark. E.g. bank loans, personal finance, loans from friends and family. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 4(b)(ii) | Each way identified, 1 mark. E.g. bank loans, selling shares, debentures | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 4(c) | Each reason identified, 1 mark, development, 1 mark. E.g. low demand for product (1 mark), no reason to expand as wouldn't be able to sell any more (1 mark).<br>Also accept lack of finance, owner's preference to remain small, aim to provide personal service therefore must remain small. | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 5 | Each function identified, 1 mark, explanation 1 mark.<br>e.g. Aims to increase international trade (1 mark) by reducing trade barriers (1 mark).<br>Mediates trade disputes (1 mark)<br>Do not accept gives loans to countries.<br>Do accept promotes economic growth/standard of living. | (4) |

**Section B**

| Question Number | Answer | Mark |
|---|---|---|
| 6(a)(i) | Prices which take into account inflation | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 6(a)(ii) | Reason identified, 1 mark, explanation, 1 mark. E.g. Supermarkets may be able to reduce prices due to economies of scale. Accept reference to competition – lower prices to increase market share. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 6(a)(iii) | Each cause identified, 1 mark, explanation, 1 mark.<br>e.g. more competition between supermarkets (1 mark) may have led to price wars (1 mark).<br>Increased supply of food (1 mark) causing prices to fall (1 mark) Also accept possibility of falling demand leads to fall in prices.<br>Credit diagrammatical analysis 1 mark | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 6(b)(i) | Each advantage identified (up to 2), 1 mark, development up to 3 marks. E.g. falling prices (1 mark) due to economies of scale and/or increased competition (1 mark) increasing standard of living (1 mark).<br><br>Each disadvantage identified, 1 mark, development up to 3 marks. E.g. less choice (1 mark) and lack of personal service (1 mark) as small shops close down (1 mark).<br>Need advantages and disadvantage for maximum marks<br>If only advantage or disadvantage considered maximum = 4 marks. | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| 6(b)(ii) | Each advantage identified (up to 2), 1 mark, development up to 3 marks. E.g. able to sell output through one supermarket (1 mark) rather than serve multiple customers (1 mark) reducing costs (1 mark). Possibly also secure contracts for future sales (1 mark).<br><br>Each disadvantage identified, 1 mark, development up to 3 marks. E.g. power of supermarkets (1 mark) could see prices paid to farmers forced down (1 mark) reducing profit (1 mark).<br><br>Need advantage and disadvantage for maximum marks<br>If only advantage or disadvantage considered maximum = 4 marks. | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| 7(a)(i) | Each advantage identified, 1 mark, explanation, up to 2 marks.  May refer to advantages of being in EU or advantages of UK only.<br>e.g. Tata will have a large potential market of the EU (1 mark) without facing tariff barriers (1 mark) so can export to other countries within the EU (1 mark).<br>e.g. UK will have skilled labour force (1 mark) so less training costs (1 mark) and able to start work immediately (1 mark).<br>Do not accept UK uses euro so trading with EU countries is easy. | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| 7(a)(ii) | Each disadvantage identified, 1 mark development up to 2 marks.  E.g. firm may exploit the workers (1 mark) and pay low wages (1 mark) and have poor working conditions (1 mark).  Also accept firm may move out of country and cause unemployment | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| 7(b)(i) | Accept definition: Relationship between a change in incomes and the change in the quantity demanded. Or formula: % change in quantity demanded % change in income Do not accept "as income increases demand increases". | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 7(b)(ii) | Each relevant point, 1 mark.  Must have reference to possible income elasticity of demand for maximum marks. Nano Car: When income of the poor rises enough to buy a car (1 mark), Nano has positive income elasticity (1 mark). When incomes rise higher, income elasticity of demand likely to be low or negative (1 mark) as people may change to a better type of car (1 mark). Jaguar XF: Jaguar is a luxury car (1 mark). Income elasticity of demand likely to be zero at low income (1 mark), then positive elasticity (1 mark) as when incomes rise people may buy the Jaguar (1 mark). | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| 8(a)(i) | Dumping | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 8(a)(ii) | Definition: group of countries (1 mark) which agree to have free trade between themselves (1 mark) Don't need reference to common external tariff for 2 marks. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 8(b)(i) | Demand and supply correctly labelled, 1 mark. No marks for only one correctly labelled. 1 mark for equilibrium price and quantity. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 8(b)(ii) | 1 mark for shift of supply curve to left.<br>1 mark for new price,<br>1 mark for new quantity<br>or accept tariff diagram with horizontal world supply | (3) |

| Question Number | Answer | Mark |
|---|---|---|
| 8(b)(iii) | Each method identified, 1 mark, explanation, 1 mark.<br>e.g. quotas (1 mark) place a limit on how much of a certain good can be imported (1 mark).<br>Accept exchange control, subsidies, embargo. | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 8(c) | Each effect identified, 1 mark (up to 4).<br>Development up to 3 marks.<br>e.g. protection may support domestic producers (1 mark) against foreign competitors, safeguarding employment (1 mark).  This may lead to them becoming less efficient (1 mark) and prices may remain higher than without protection (1 mark).  Protected industry will employ workers (1 mark) who might otherwise have lost their jobs (1 mark), avoiding benefit payments for the government (1 mark) | (8) |

| Question Number | Answer | Mark |
|---|---|---|
| 9(a)(i) | A period of negative economic growth.<br>Also accept falling GDP, 2 marks.<br>1 mark for vague definition e.g. "slump in economy," "downswing". | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 9(a)(ii) | Each characteristic, 1 mark.  E.g. high unemployment, falling demand, falling production/output, fall in investment, fall in standard of living. | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 9(b)(i) | Each method of monetary policy identified, 1 mark (up to 3 methods identified.), development up to 5 marks for interest rates, up to 2 marks for other instruments of monetary policy. E.g.to stimulate the economy the rate of interest can be cut (1 mark). This will make borrowing cheaper (1 mark) so people will spend more, creating demand (1 mark) which in turn will lead to increased production (1 mark). Lower rates will also mean less saving (1 mark) which will also stimulate demand (1 mark). | (6) |

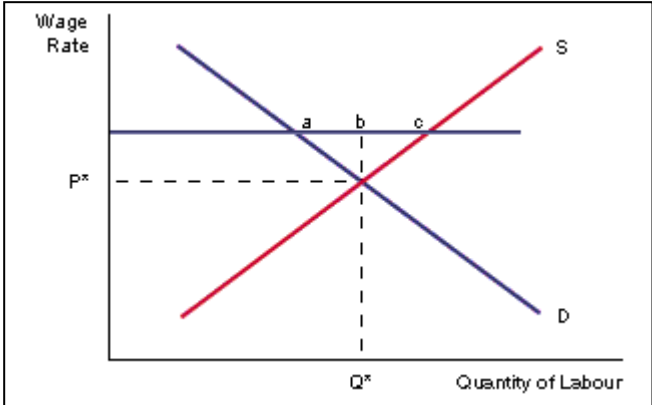| Question Number | Answer | Mark |
|---|---|---|
| 9(b)(ii) | Each method of fiscal policy identified, 1 mark (up to 2), development up to 4 marks for general lowering of taxes. e.g. the government can increase spending e.g. on benefits (1 mark) which in turn will increase demand (1 mark) and lead to increased production (1 mark). It can also lower taxes e.g. income tax, (1 mark) which will increase disposable income (1 mark) and stimulate demand (1 mark). | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| 9(c) | Each effect identified, 1 mark, explanation, 1 mark. E.g. lower demand from USA may lead to a fall in demand for exports from some countries (1 mark) and lead to balance of payments problems (1 mark) Also accept imports from USA may become cheaper, effect on exchange rates. | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 10(a)(i) | e.g. farmer, miner. | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 10(a)(ii) | e.g. baker, factory worker. | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 10(a)(iii) | e.g. computer operator, banker, salesperson. | (1) |

| Question Number | Answer | Mark |
|---|---|---|
| 10(b)(i) | 1 mark for statement relating to wages determined by demand and supply in free market economy. Each demand factor, 1 mark, explanation, 1 mark. e.g. developing country has growing tertiary sector (1 mark) therefore demand for workers increasing (1 mark) Each supply factor, 1 mark, explanation, 1 mark. E.g. primary workers - less skills, little training so supply is greater. Tertiary - need to be educated and possess certain training so supply is less. Must have reference to both demand and supply factors for maximum marks. One sided = 4 marks max. | (6) |

| Question Number | Answer | Mark |
|---|---|---|
| 10(b)(ii) |  Diagram: 1 mark for D curve and S curve 1 mark for original wage rate and quantity 1 mark for indicating minimum wage rate 1 mark for showing fall in number employed. Explanation: 1 mark for explaining MWR above equilibrium 1 mark for explaining that S>D so some workers unemployed 1 mark for further extension, such as reference those made unemployed will have no income so living standards fall or extent of unemployment depends on gap between MWR and equilibrium wage or primary wages are very low so MWR likely to have significant impact | (7) |

| Question Number | Answer | Mark |
|---|---|---|
| 10(b)(iii) | Each method identified, 1 mark, explanation, 1 mark.<br>e.g. financial benefits (1 mark)<br>e.g. rent subsidy would give them more left from wages to spend (1 mark)<br>Free health care or education (1 mark) could make them healthier so that they can lead a better life.<br>Do not accept methods which will enable primary workers to change jobs as they would no longer be primary workers! | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 11(a)(i) | Changes or reference to comparison between years(1 mark) in real (1 mark) GDP (1 mark) | (3) |

| Question Number | Answer | Mark |
|---|---|---|
| 11(a)(ii) | Reason identified, 1 mark, explanation, 1 mark.<br>e.g. lower unemployment, increased standard of living.<br>Also accept to increase exports (1 mark) and improve balance of payments (1 mark). | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 11(b)(i) | Each advantage identified, 1 mark, development up to 2 marks.<br>e.g. helps balance of payments (1 mark) as country gains foreign currency (1 mark) as tourists pay for hotels etc. (1 mark).<br>Each disadvantage identified, 1 mark, development up to 2 marks.<br>e.g. pollution can occur (1 mark) as tourists use cars (1 mark) and drop litter (1 mark).<br><br>Must have advantage and disadvantage for maximum marks.  If one sided maximum =3 marks<br><br>Maximum for list = 3 marks | (5) |

| Question Number | Answer | Mark |
|---|---|---|
| 11(b)(ii) | Each advantage identified, 1 mark, development up to 2 marks.<br>e.g. increased efficiency (1 mark) as firms are faced with competition (1 mark) and now need to make profits (1 mark).<br>Each disadvantage identified, 1 mark, development up to 2 marks.<br>e.g. may lead to unemployment (1 mark) as firms | |

| | replace workers with machines (1 mark) to increase productivity (1 mark). Must have advantage and disadvantage for maximum marks. If one sided maximum =3 marks<br><br>Maximum for list = 3 marks | (5) |
|---|---|---|

| Question Number | Answer | Mark |
|---|---|---|
| 11(b)(iii) | Each advantage identified, 1 mark, development up to 2 marks.<br>e.g. increase productivity (1 mark) increasing competitiveness with other countries (1 mark) resulting in improved balance of payments (1 mark).<br><br>e.g. workers need training to adapt to new technology(1 mark) – increases short run costs (1 mark) may lead to unemployment (1 mark).<br><br>Must have advantage and disadvantage for maximum marks. If one sided maximum =3 marks | (5) |

| Question Number | Answer | Mark |
|---|---|---|
| 12(a)(i) | The rate at which the general level (1 mark) of prices are increasing (1 mark). Value of money falling (2 marks). Prices rise (1 mark) | (2) |

| Question Number | Answer | Mark |
|---|---|---|
| 12(b)(i) | Cost push inflation/Increase costs for the firm (1 mark) leads to increased prices (1 mark) as output doesn't change (1 mark) | (3) |

| Question Number | Answer | Mark |
|---|---|---|
| 12(b)(ii) | Increased disposable income (1 mark) leads to greater demand (1 mark) and so demand pull inflation (1 mark) | (3) |

| Question Number | Answer | Mark |
|---|---|---|
| 12(c)(i) | 1 mark for worsening of balance of payments.<br>Each cause of this, 1 mark, development, 1 mark.<br>e.g. export prices rise (1 mark) so demand falls (1 mark), import prices appear cheaper (1 mark) so demand increases (1 mark).<br>Credit: "assuming prices are rising faster than major competitors". | (5) |

| Question Number | Answer | Mark |
|---|---|---|
| 12(c)(ii) | Borrowers win (1 mark), as amount they have to pay back is less in real terms (1 mark) Lenders lose (1 mark) as when the loan is repaid it is worth less in terms of what it can buy (1 mark) | (4) |

| Question Number | Answer | Mark |
|---|---|---|
| 12(c)(iii) | They lose with inflation (1 mark) as their incomes don't increase (1 mark) so the amount they can buy falls (1 mark) | (3) |