PEARSON EDEXCEL IAL ECONOMICS · YEC11

# ECONOMICS



## MARK SCHEME

### UNIT 1: INTRODUCTORY CONCEPTS

| SCORE | PERCENTAGE |
| --- | --- |
| /272 | % |

STEMUP

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# Mark Scheme

Q1.

| Question | Quantitative skills assessed | Answer | Mark |
|---|---|---|---|
| | | **The only correct answer is C**<br><br>**A** is not correct because increased boredom is a disadvantage<br>**B** is not correct because costs to make each garment are likely to decrease<br>**D** is not correct because less time will be required for training as they focus on fewer parts of the production process | **(1)** |

Q2.

| Question | Quantitative skills assessed | Answer | Mark |
|---|---|---|---|
| | – | A | **(1)** |

Q3.

| Question | Explain **one** advantage to a car manufacturer of using the division of labour to organise production.<br><br>**Answer** | Mark |
|---|---|---|
| | **Knowledge 1, Application 1, Analysis 2**<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge and Analysis**<br>1 mark for understanding division of labour e.g.:<br>• where production is broken down into tasks and each worker specialises on one task **(1K)**<br>1 mark for one advantage of using the division of labour and up to 2 marks for linked expansion<br>• increase in productivity **(1K)** as each worker is able to produce more output **(1AN)** which helps a car manufacturer to produce cars more cheaply than his competitors **(1AN)**<br>• decreased unit costs/decreased costs of production **(1K)** as each worker is able to produce more goods whilst receiving the same pay **(1AN)** enabling a car manufacturer to lower his prices/increase profit margins **(1AN)**<br>• time saving **(1K)** as workers do not need to keep changing tools **(1AN)** and can spend more time focused on production **(1AN)**<br>• workers become more proficient at one skill **(1K)** as they spend so long on the task that they become experts **(1AN)** and this helps with the speed of them completing the task **(1AN)**<br>• less training required **(1K)** as workers only need to be trained to do one task/rather than training in whole production process **(1AN)** so the car manufacturer experiences reduced costs of training staff **(1AN)**<br>• workers can focus on tasks that suit their skills **(1K)** which means they are more likely to complete jobs they enjoy **(1AN)** and are more likely to be motivated **(1AN)** | |

| | | |
|---|---|---|
| | **Application**<br>1 mark for applying to Henry Ford car company or a car manufacturer, e.g.:<br>• one worker will focus on the tyres/windscreens/chassis/steering wheel/engine/painting/each worker will add a different component/part to the car/each worker moves from producing a whole car to one part **(1AP)** | **(4)** |

Q4.

| Question | Evaluate the advantages of a free market economy.<br><br>**Indicative content** |
|---|---|
| | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. |

| | |
|---|---|
| | **Knowledge, application and analysis (12 marks) – indicative content**<br>• Free market economies- where price mechanism/supply and demand determine resource allocation/where government has minimal involvement in decisions<br>• Hong Kong closest to free market- low tax rates, low government spending and the low level of business regulation<br>Advantages<br>• Incentives to work hard in order to increase incomes<br>• Profit incentive means firms have incentive to be efficient<br>• Consumers are free to choose the goods and services they desire<br>• Producers are free to create products to meet customer needs<br>• Firms are likely to use profits to develop new processes helping to reduce costs and improve efficiency/productivity<br>• Profits invested in innovative new products which better meet consumer needs<br>• Government failure avoided e.g.<br>  ○ surpluses & shortages resulting from price controls<br>  ○ information gaps meaning the intervention is not always the best option<br>  ○ can create unintended consequences such as smuggling<br>  ○ creates excessive administrative costs.<br>• No expensive central planning<br>• Competition between firms may help lower price and increase quantity of goods available<br>• Market forces (invisible hand) helps to clear the market when there is excess demand/excess supply/disequilibrium<br>• Disadvantages of command economy |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach which has no chains of reasoning. |
| **Level 2** | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |
| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

**Evaluation (8 marks) – indicative content**

Disadvantages

- Underprovision of public goods- non-rivalry and non-excludability creates a free rider problem and private sector firms cannot generate profits- impacts on the provision of streetlights, roads, defence, sea defences
- Underprovision of healthcare/education- services with external benefits where people underestimate the benefit
- Overconsumption - people may consume goods ignoring external costs of their consumption e.g. pollution and congestion have negative impacts on third parties
- Private sector health care can be inefficient and expensive- US health insurance costs
- Can create inequality:
  - where the rich inherit and have more wealth
  - low skilled/unskilled/disabled/sick have low income with no support from the state in the form of welfare payments
  - free market may result in high levels of unemployment
- Large powerful firms can emerge that exploit customers by charging high prices and restricting output
- When demand is low unemployment may rise leaving some with no income
- Markets can be unstable:
  - Market bubbles can emerge and burst
  - Creates uncertainty for businesses
- Depends on the extent to which an economy acts as a free market economy- even Hong Kong still has taxes and regulation so is not a pure free market economy.

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| Level 1 | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| Level 2 | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| Level 3 | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q5.

| Question | Evaluate the advantages of state provision of goods and services.<br>**Indicative content** |
|---|---|
| | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.<br><br>**Knowledge, application and analysis (12 marks) – indicative content**<br><br>• State provisions is where government uses taxation to provide goods and services<br>• UAE- provides free education and healthcare, flood defences and world tallest lighthouse |

| | |
|---|---|
| | **Advantages**<br>• Reduces the problem of underconsumption and production of goods with positive externalities- underconsumption as people underestimate the benefits of consuming a good- state provided free healthcare/free primary and secondary education<br>• Reduces the problem of overconsumption and production of goods with negative externalities- overproduction as firms ignore negative impact on third parties- government imposes indirect taxes on firms producing external costs<br>• Reduces the problem of underprovision of public goods- non-rival and non-excludable- free rider problem makes provision by the private sector unprofitable so government steps in e.g. lighthouse/flood defences<br>• Ensures safety of the public by preventing flooding and ships hitting rocks<br>• Reduces the problem of information gaps/Imperfect market information- information failure means consumers may under-consume goods such as health care and education so the government provides. State provides information to fill gaps- e.g. on impact of high sugar consumption<br>• Ensures provision for all including those on low incomes who would otherwise be unable to afford the goods/services<br>• May help to prevent exploitation of consumers by private monopolies<br>• Can increase the number that are employed in construction/in healthcare/education system<br><br>Diagrams may be drawn to illustrate underproduction/overconsumption |

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|---|---|---|
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| Level 2 | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |
| Level 3 | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| Level 4 | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

| | |
|---|---|
| | **Evaluation (8 marks) – indicative content**<br><br>**Disadvantages**<br>• Government failure where there is a net welfare loss through:<br>  ○ information gaps<br>  ○ lack of incentives<br>  ○ unintended consequences<br>  ○ excessive administrative costs<br>  ○ moral hazard<br>• Government provision can be less efficient compared to the free market- lack of competition<br>• Opportunity costs associated with the government spending leaving less money for other priorities<br>• Less choice for consumers<br>• Reduction in freedom<br>• High levels of taxation to fund spending<br><br>**Other evaluation**<br>• It is difficult to place a value on the size of any external benefits/costs to know how much to provide<br>• Information failure is increasingly solved by the internet<br>• Magnitude of spending e.g. $136 million needs to judge this against the benefit of flood defences |

| Level | Mark | Descriptor |
|---|---|---|
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| Level 2 | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| Level 3 | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q6.

| Question | The division of labour applies to many types of production and occupation, including:<br>• in the textile industry, workers are responsible for specific parts of the production process<br>• in healthcare, workers have different roles including doctors, nurses, cleaners and administrators.<br>Evaluate the advantages of the division of labour for businesses **and** workers. Refer to an industry of your choice in your answer.<br><br>**Indicative content** |
|---|---|
| | **Quantitative skills assessed**<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. |

| | **Knowledge, application and analysis (12 marks) – indicative content**<br>• Division of labour-breaking down production into tasks and each task is completed by a different worker<br>• In textile production, one worker might focus on cutting, sewing, dyeing, packaging - enabling them to become experts at that job<br>• In healthcare: ○ doctors performing specialist operations ○ nurses providing personal care ○ cleaners ensuring safe and secure environment ○ administrators completing paperwork<br>• Firms that use the division of labour will find output increases as workers specialise in different jobs<br>• The productivity improves as output per worker rises because workers do not need to keep changing tasks<br>• With rising output per worker on the same pay costs to make each product will fall<br>• More efficiency as less resources/time are wasted<br>• With lower costs per unit the firms may be able to charge a lower price/ generate higher profit per sale<br>• Some tasks can be simplified such that a machine can do the job- this automation may result in reduced labour costs<br>• Workers need to be trained on fewer tasks, reducing the time spent on training and therefore reducing cost of training<br>• Healthcare workers can train in a more specialised area/for more hours so can develop expertise and become more skilled<br>• Workers can focus on jobs that best fit their abilities, thereby making them more productive and employable<br>• As workers become more expert in that one task, they can demand higher salaries/wages e.g. cardiologists, paediatricians, surgeons<br>**N.B. Award a maximum of level 3 if there is not reference to both business and workers** |
|---|---|

| Level | Mark | Descriptor |
|---|---|---|
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| **Level 2** | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |
| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

| | |
|---|---|
| | **Evaluation (8 marks) – indicative content**<br>• If workers are highly specialised, this may result in the job being monotonous, boring and repetitive<br>• The boring and repetitive nature of the job may result in low labour morale<br>• Workers will find it difficult to move to other jobs as they are specialised in only one task<br>• If workers are replaced by machines then unemployment may result<br>• With monotony/boredom/low morale productivity is likely to fall<br>• Workers may leave the business resulting in a need for employers to spend more on recruiting and training new staff<br>• If workers lose the motivation to concentrate and do a good job, mistakes may creep in lowering quality<br>• An assembly line could grind to a halt if there is a blockage in one particular area if tasks are interdependent<br>• Industrial action by one group of workers may negatively impact other tasks in the production process<br>• Different impact will be felt by different industries |

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|---|---|---|
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| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q7.

| Question | Evaluate the advantages of the division of labour in organising production.<br><br>**Indicative content** |
|---|---|
| | **Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.<br><br>**Knowledge, application and analysis (12 marks) – indicative content**<br>• Division of labour– where production process in broken down into tasks and workers focus on one task<br>• When one worker does all stages of production, they will need to change tools and this takes time<br>• Smith found that workers will produce only 10 to 20 pins per day<br>• 10x10= 100 OR 10x20=200 is the possible production before specialisation<br>• 4 800 is output per worker after division of labour is applied<br>• If the pin factory breaks down tasks with one worker cutting, another sharpening etc they will use one tool and save time<br>• Significantly increase output per worker per hour/productivity/efficiency<br>• Using one particular tool workers may become faster<br>• By paying the same wage for each worker and with them producing more production costs fall/ costs per unit fall<br>• Training costs will fall as they will only need training in one area, not in all stages of production<br>• Workers focus on one job and may become experts at the job helping them to increase output further<br>• Workers can gain loyalty and a sense of achievement from their branch of the production<br>• There is no need to move around the manufacturing unit; the half-finished good comes to the worker<br>• Workers can concentrate on those jobs which best suit their skills and temperament<br>• Businesses may be able to replace workers with machines if the job is easily automated<br>• If costs are lower, businesses may be able to charge lower prices |

| Level | Mark | Descriptor |
|---|---|---|
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| | | |
|---|---|---|
| | **Evaluation (8 marks) – indicative content**<br>• If workers are highly specialised, then the job can become monotonous, very boring and repetitive. This can lead to low labour morale<br>• If workers lose the motivation to concentrate and do a good job, mistakes may creep in as they get bored. Quality may fall<br>• Adam Smith himself recognised this potential problem and advocated education of the workforce so that they wouldn't get too demoralised by their repetitive job<br>• Workers may leave causing issues with staff retention. Therefore, businesses might need to spend more on recruitment to replace workers that leave<br>• An assembly line could grind to a halt if there is a blockage in one particular area/ interdependence<br>• If one worker is absent production can stop<br>• Not all production processes can be broken down in this way<br>• Repetitive tasks completed by workers can be replaced by machinery/capital leading to unemployment | |
| Level | Mark | Descriptor |
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q8.

| Question | Evaluate the possible benefits of an economy moving closer to being a 'free market economy'.<br><br>**Indicative content** |
|---|---|
| | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.<br><br>**Knowledge, application and analysis (12 marks) – indicative content**<br>• Definition of free market economy- resources are allocated by the price mechanism with little/no government intervention<br>• Mixed economy- where resources are allocated by the price mechanism and government<br>• Ireland is a mixed economy with government spending 35.9% of GDP in 2007 and 25.1% in 2019<br>• Reduced by 10.8 percentage points over 12 years<br>• Movement towards more free market- more resources are allocated by price mechanism and less by the government<br>Benefits of a free market economy<br>• Resources are allocated efficiently to where expected profit is highest<br>• Competition between firms creates better products for consumers<br>• The profit motive encourages firms to spend money to create better products<br>• Resource allocation is determined by the pattern of consumer demand rather than by the government<br>• Competition between firms encourages them to lower prices to keep customers<br>• Reduces risk of government failure as less resources wasted in expensive administration by governments<br>• Incentive to work harder as workers can earn more<br>Candidates should be rewarded for relevant use of a diagram. |

| Level | Mark | Descriptor |
|---|---|---|
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| **Level 2** | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |

| | | |
|---|---|---|
| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |
| | **Evaluation (8 marks) – indicative content**<br>Disadvantages of free market economy<br>• Can lead to significant inequality<br>• Some firms can become powerful raising prices<br>• Non- provision of public goods<br>• Underprovision of goods with external benefits such as health and education<br>• Overprovision of goods that cause external costs<br>• Instability- e.g. after financial crises/lockdown<br><br>Other evaluative comments<br>• Magnitude- sizeable reduction in government spending as a proportion of GDP- 10.8 percentage point substantially less government involvement<br>• Ireland is still a mixed economy despite the reduction in the share of government spending<br>• The amount of government spending in Ireland may not have fallen despite the percentage falling if GDP was increasing<br>• 25.1% may mean that the public goods and key public services are still provided<br>• Need data on other factors to determine whether Ireland has benefitted or not by its movement towards free market economy<br>• Just over €1 in every €4 is still government spending so still significant government involvement in the economy | |

| Level | Mark | Descriptor |
|---|---|---|
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| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q9.

| Question Number | Rimac manufacture electric cars. With the first model, the Concept_One, an individual worker was responsible for building each car from start to finish. Only seven were manufactured. In 2017 €30 million was spent on developing a factory which would use the division of labour to manufacture 200 Concept_Two cars.<br><br>With reference to the market for car manufacturing, explain **one** benefit of the 'division of labour'. | Mark |
|---|---|---|
| | **Knowledge 2, Application 2**<br><br>**Knowledge**<br>Up to 2 marks<br><br>1 mark for defining 'the division of labour' e.g.<br>The division of labour is where the production process is broken down into stages and each worker focuses on a specific task **(1)**.<br><br>Up to 2 marks for explaining one benefit, e.g.<br>• Less training is required **(1)** as workers will only need to be trained on one task **(1)**.<br>• Productivity will increase **(1)** as workers do not have to keep changing tools/ as workers become highly skilled at specific tasks **(1)**.<br>• Capital may replace workers **(1)** saving on labour costs **(1)**.<br><br>**Application**<br>Up to 2 marks for applying to the market for car manufacture, e.g.:<br>• Production of cars increases from 7 to 200 cars **(1)**<br>• Rather than training staff how to put together all components of the car **(1)** you can spend less time training on a specific task such as fitting the windscreen **(1)**.<br>• Rimac can put in place a production line where some tasks will be completed by robots/capital **(1)** which can be cheaper to run when compared to paying wages **(1)**. | **(4)** |

Q10.

| Question | Define the term 'capital goods'. (Extract C, line 5)<br><br>**Answer** | Mark |
|---|---|---|
| | **Knowledge 2**<br>Up to 2 marks for understanding of 'capital goods.' e.g.:<br>• Man-made aids to production **(1)**<br>• Used in the production of other capital goods or consumer goods **(1)**<br>• Spending on machinery/buildings/vehicles **(1)**<br>• Goods that increase productive potential /shifts PPF to the right **(1)**<br>• Indian Government subsidies are used by farmers to invest in capital goods **(1)** | **(2)** |

Q11.

| Question Number | Answer | Mark |
|---|---|---|
| | **Knowledge 2**<br>Up to 2 marks for defining a 'renewable resource', e.g.:<br>• A resource that can be used again and again **(1)**<br>• A resource that does not deplete with use **(1)**<br>• A resource that does not run out **(1)**<br>• A resource that is naturally replenished **(1)**<br>• A resource that is infinite **(1)**<br>• An example is hydroelectricity **(1)**<br>**NB: do not reward other examples not in Extract B** | **(2)** |

Q12.

| Question | With reference to Lake Chad, explain the difference between a free good and an economic good.<br><br>**Answer** | Mark |
|---|---|---|
| | **Knowledge 2, Application 2**<br>Quantitative skills assessed:<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br>**Knowledge**<br>1 mark for understanding of 'free good', e.g.<br>- Free good is a resource which is so abundant that its availability is not a constraint on economic activity/in unlimited supply/a good with no opportunity cost/good does not have a price **(1)**<br>1 mark for understanding of 'economic good', e.g.<br>- Economic good is a good that derives utility/a good with scarcity and therefore an opportunity cost/scarcity means people may be willing to pay for it **(1)**<br>**Application**<br>1 mark for reference to Lake Chad as a free good in 1960, e.g.<br>• In 1960 water from the lake was a free good/lake used to provide irrigation to farmers for their crops suggesting free good **(1)**<br>1 mark for reference to Lake Chad as an economic good in 2017, e.g.<br>• By 2017 the farmers could no longer use the lake for irrigation suggesting it is an economic good/has an opportunity cost **(1)** | **(4)** |

Q13.

| Question Number | With reference to Canada's electricity generation, explain the difference between 'renewable resources' and 'non-renewable resources'.<br>Answer | Mark |
|---|---|---|
| | **Knowledge 2, Application 2**<br><br>**Knowledge**<br>1 mark for defining 'renewable resources'<br>• An economic resource which is not depleted by use/ replenishes after use/ can be used continuously/ be used again and again **(1)**.<br>1 mark for defining 'non-renewable resources'<br>• An economic resource that cannot be replaced/ replenished once used/ resource that is finite **(1)**.<br><br>**Application**<br>1 mark for applying to the Canada's energy generation for a renewable resource, e.g.:<br>• Hydro **(1)**<br>• Other renewables could include solar/ wind **(1)**<br>1 mark for applying to the Canada's energy generation for a non-renewable resource, e.g.:<br>• Coal/ Natural gas **(1)**.<br>• Most electricity generated is renewable **(1)** | **(4)** |

Q14.

| Question | With reference to the table, explain the difference between 'capital goods' and 'consumer goods'.<br><br>**Answer** | Mark |
|---|---|---|
| | **Knowledge 2, Application 2**<br><br>Quantitative skills assessed:<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**QS2:** Calculate, use and understand percentages, percentage changes and percentage point changes.<br><br>**Knowledge**<br>1 mark for defining 'capital goods'<br>• Capital goods are man-made aids to production/goods used in the production of other goods/examples such as machinery/tools, buildings **(1)**<br>1 mark for defining 'consumer goods'<br>• Consumer goods sold to individuals to satisfy their wants and needs **(1)**<br><br>**Application**<br>1 mark for applying explicitly to the data in the table linked to capital goods e.g.:<br>• Sales of capital goods declined 6.5% in April compared to March/ sales of capital goods grew 2.3% in May 2020 compared to April 2020 **(1)**<br>1 mark for applying to the data in the table linked to consumer goods e.g.:<br>• Sales of consumer goods declined 14.7% in April compared to March/ sales of capital goods grew 17.7% in May 2020 compared to April 2020 **(1)** | **(4)** |

Q15.

| Question | With reference to China, explain the difference between 'capital goods' and 'consumer goods'.<br><br>**Answer** | Mark |
|---|---|---|
| | **Knowledge 2, Application 2**<br><br>Quantitative skills assessed:<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge**<br>2 marks for understanding of 'capital goods' and 'consumer goods', e.g.<br>• Capital goods are man-made aids to production/<br>Goods used in the production of other capital and/or consumer goods/<br>Includes machines/tools/vehicles/buildings **(1)**<br>• Consumer goods are goods used by consumers/<br>Goods that people buy to use themselves/<br>Goods purchase to gain utility/satisfy current needs and wants **(1)**<br><br>**Application**<br>2 marks for reference to China e.g.:<br>• Expenditure on capital goods was 47% in 2018/ 43% in 2019/capital expenditure decreased 4 **percentage points (1)**<br>• Spending on consumer goods increased from 38.7% to 38.8%/ 0.1 **percentage point** increase **(1)**<br>• The changes in expenditure in China may result in a reduction in the rate of economic growth/increase current living standards **(1)** | **(4)** |

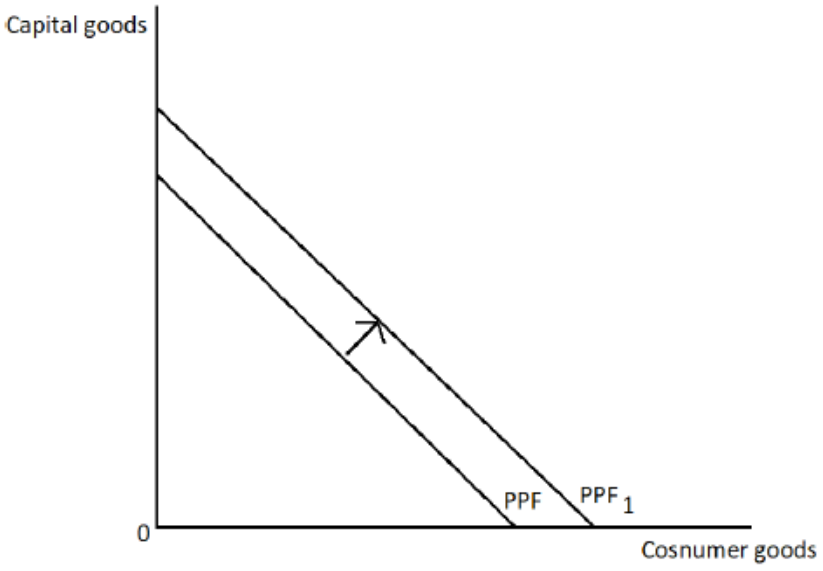
Q16.

| Question Number | Quantitative skills assessed | Answer | Mark |
|---|---|---|---|
| | – | **The only correct answer is C**<br><br>***A*** *is not correct as this economy only has price mechanism allocating resources*<br><br>***B*** *is not correct as this economy only has the government allocating resources*<br><br>***D*** *is not correct as this is where firms do not maximise profit and consumers do not maximise utility* | **(1)** |

Q17.

| Question | Evaluate possible factors that could cause a rightward shift of a country's production possibility frontier.<br>Include at least one relevant diagram in your answer.<br><br>Indicative content |
|---|---|
| | **Quantitative skills assessed**<br>**QS4**: Construct and interpret a range of standard graphical forms<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. |

| | |
|---|---|
| | **Knowledge, application and analysis (12 marks) – indicative content**<br><br>• PPF- shows the maximum possible production using all available resources<br><br>Factors that could cause a rightward shift of a country's PPF<br>• Population increase from 9.4m to 14.1m (UAE)/12.1m to 18.8m (Bolivia)/113.9m to 180.2m (Philippines) increases the size of the available workforce<br>• More immigration- increases the size of the labour force and production possibilities<br>• Offering more work visas, offer payments to migrants may encourage immigration, increasing labour force<br>• Families having more children, will eventually result in larger workforce<br>• Use of benefits, subsidies and tax breaks to encourage families to have more children, to increase workforce<br>• Investment in capital goods will increase productivity<br>• Use of subsidies and tax breaks to encourage investment in capital goods<br>• More research and development will result in better production processes increasing output<br>• Encourage research and development- helping to improve innovation and increasing productive potential<br>• Development of artificial intelligence may replace tasks completed by humans<br>• Increase spending on education to develop skills to improve productivity<br>• Increase spending on healthcare to improve health- reducing time lost to absenteeism, sickness<br>• Increase retirement age so people stay in the labour market for longer<br>• Reduce school leaving age so that people start to become productive earlier<br>• Offer training courses to improve skills and productivity<br>• Discovery of new natural resources<br>PPF diagram- accept straight line or curved PPFs |




**NB Award maximum of Level 3 if no diagram is included**

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach which has no chains of reasoning. |
| **Level 2** | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |
| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

| | |
|---|---|
| | **Evaluation (8 marks) – indicative content**<br>• Immigrating to a country may not be attractive if jobs are not available in the right areas<br>• Immigration may cause pressure on public services<br>• If immigrants do not find suitable opportunities productive potential will not rise<br>• Payments to migrants create an opportunity cost<br>• Financial rewards for having more children are unlikely to exceed the costs of having more children<br>• Subsidies to encourage investment in capital goods create opportunity costs<br>• Much research and development is unproductive and not all ideas will improve production possibilities<br>• Artificial intelligence may come with unknown risks and costs<br>• Spending on education may be in the wrong areas- resulting in smaller impact on productive potential<br>• Increase in spending on healthcare will only have an impact if it is preventative<br>• Increasing the retirement age may cause unrest as people are forced to work longer<br>• If people leave education earlier they may be less skilled<br>• Possible information failure, government failure if training is in wrong areas<br>• Time lag e.g. long delay between increased birth rate and increased production possibilities |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q18.

| Question Number | In 2019, the price of a litre of diesel was 65% higher in Thailand than in Malaysia. The price difference was because of higher taxation on diesel in Thailand. This led to illegal smuggling. For example, on one night, Thai authorities seized 300 000 litres of diesel that was illegally imported from Malaysia.<br><br>Evaluate possible causes of government failure in a market of your choice.<br><br>Indicative content |
|---|---|
| | **Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited. |

| | |
|---|---|
| | **Knowledge, application and analysis (12 marks) – indicative content**<br>• Government failure– where government intervention leads to a net welfare loss<br>Possible causes of government failure include:<br>• Information gaps- where the government lacks perfect information and sets the wrong level of regulation/taxation/subsidy<br>• Lack of incentives- where the policy fails to create the incentives for firms and consumers to change their behaviour appropriately<br>• Unintended consequences- where a policy leads to an outcome that was not anticipated, this could include smuggling<br>• Excessive administrative costs- where the costs of administering the regulation or tax are greater than any benefit of the government intervention<br>• Moral hazard- where the costs of an action are likely to be experienced by someone else causing riskier actions<br>Possible responses linked to the stem<br>• The 65% higher price in Thailand gives those in Thailand the incentive to travel to Malaysia to buy cheaper diesel<br>• Even taking in to account the costs associated with travelling the significant difference in price means this activity can be profitable<br>• The returns may be so large that smugglers are willing to take the risk of being caught<br>• 300 000 litres in one night suggests that the smuggling is commonplace<br>• Diesel will have the same properties in both countries so the appearance and smell will be identical making it difficult to discover its origins<br>• This makes it easier to smuggle undetected<br>• If the value of smuggling if greater than the tax revenue earned then this is an example of government failure<br>• Smuggled diesel results in a loss of tax revenue to the Government<br>• If the smuggling funds organised crime then this could be a further unintended consequence<br>**NB Maximum Level 3 if candidate does not refer to at least two causes of government failure related to a market of their choice** |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach which has no chains of reasoning. |
| **Level 2** | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |
| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

| | |
|---|---|
| | **Evaluation (8 marks) – indicative content**<br>Evaluation should be rewarded when linked to the relevant cause of government failure<br>• Information gaps<br>• Lack of incentives<br>• Excessive administrative costs<br>• Moral hazard<br><br>Evaluation linked to stem<br>• Measurement problem- difficult to value the level of smuggling as it goes unrecorded<br>• Magnitude- sizeable tax so likely to have a large impact on generating smuggling<br>• Depends on efforts to detect<br>• Depends on punishment as to whether it continues<br>• Possible rewards of smuggling may far exceed any penalties<br>• Time- the current efforts to detect smuggling may in time reduce the unintended consequence<br>• Malaysian sellers of diesel will earn more revenue and the Malaysian Government more tax revenue |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q19.

| Question Number | Between 2000 and 2019 in China the average price of a house increased from 4 000 yuan per square metre ($m^2$) to 60 000 yuan per $m^2$. The ratio of average house prices to average incomes increased from 5.6 to 7.6, showing that houses were becoming less affordable.<br><br>Evaluate the impact of market bubbles in the housing market.<br><br>Indicative content |
|---|---|
| | **Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. |

| | |
|---|---|
| | **Knowledge, application and analysis (12 marks) – indicative content**<br>• Define market bubble- a sustained rise in the prices of financial assets such as housing and equities which takes values will above long-run sustainable levels /where the value increases above the true value/ prices can be driven by expectations of future price increases attracting new buyers to the market/rapid price rise will eventually be followed by a crash when prices fall significantly<br>• In China the price per $m^2$ has increased from 4 000 yuan to 60 000 yuan between 2000 to 2019/1 400% increase in price over 20 years/ increased 56 000 yuan<br>• House price to income ratio has increased from 5.6 to 7.6 showing that house price has gone from being 5.6x to 7.6x the person's income<br>• Low/middle income families will find it increasingly difficult to purchase a house<br>• High house prices will see banks lending more money helping them to generate more revenue and profits<br>• The construction sector will benefit from increased demand to build more houses/property<br>• If the bubble bursts the construction sector would suffer significantly with unemployment likely<br>• Rising house prices in one area that are faster than another may make it harder to move between locations<br>• When the bubble bursts the price will return to a value that reflects the fundamental value<br>• The housing bubble will see house prices rise creating consumer confidence and increase consumption of other goods and services<br>• Risk of housing market bubble bursting if interest rates rise, credit become less available or consumer confidence falls<br>• If the bubble bursts then the falling price of houses will see falling consumer confidence and less consumption of other goods and services- knock on effects on construction industry/lenders<br>• House price rises increase the wealth of house/property owners and those that do not own houses and instead rent will not see the same increases in wealth<br>**NB Must make reference to the housing market to achieve Level 4**<br>**Must make a reference to bubbles bursting/corrections to achieve Level 4** |

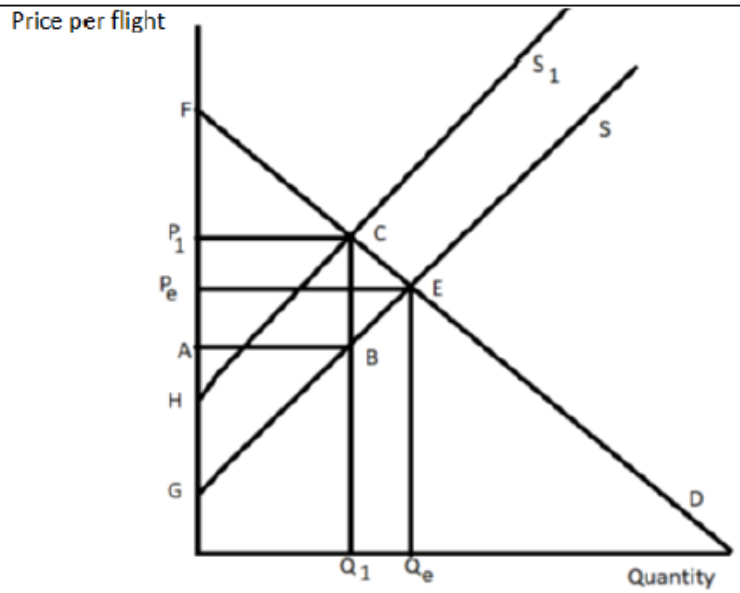
| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach, which has no chains of reasoning. |
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| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

| | |
|---|---|
| | **Evaluation (8 marks) – indicative content**<br>• Measurement problem – difficult to measure how much of the price change reflects the fundamental value of housing and how much links to speculative investment in housing<br>• Magnitude – this is a significant rise in price of housing so likely to have a large impact<br>• Time frame – whilst the price may continue to rise in the long run there is likely to be a correction if the price rises too far and the price may crash<br>• It is likely that with rapid economic growth through the period 2000 and 2019 much of the growth will reflect the economy's excellent performance<br>• Depends on whether house ownership is significant or whether people rent instead<br>• Affordability may not be an issue as wages will have also grown substantially<br>• An economy will double in size in 10 years with economic growth of 7%, so likely that with high economic growth for much of this period the economy will be many times bigger and this might reflect a fundamental increase in the value of housing<br>• The data does not make it clear whether this is a change in the nominal house price or real house price. If this is a nominal value then the price change is likely to have less significance |

| Level | Mark | Descriptor |
|---|---|---|
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| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q20.

| Question | Evaluate the likely impact of imposing indirect taxes on aeroplane flights to reduce carbon emissions.<br>Include at least one relevant diagram in your answer.<br><br>**Indicative content** |
|---|---|
| | **Quantitative skills assessed**<br>**QS4**: Construct and interpret a range of standard graphical forms<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.<br><br>**Knowledge, application and analysis (12 marks) – indicative content**<br><br>• Definition of indirect taxation- expenditure tax<br>• Specific tax/Ad valorem tax-<br>  ○ Increase costs of production<br>  ○ Shifts/pivots supply to the left, S to $S_1$<br>  ○ Increased equilibrium price charged to consumers $P_e$ to $P_1$<br>  ○ Decreases equilibrium quantity of flights for consumers, $Q_e$ to $Q_1$<br>  ○ Reduced quantity of aeroplane flights will result in a reduction in fuel use and in total global carbon emissions. Therefore there will be a reduction in external costs<br>  ○ Tax revenue received by the government $ABCP_1$<br>  ○ Use tax revenue to fund research into technology to reduce emissions/ fund alternatives<br>  ○ Producer surplus decreases/ airline/ airport profits fall<br>  ○ Consumer surplus decreases $FEP_e$ to $FCP_1$ |




Accept ad valorem diagrams to illustrate the effects of the indirect tax

Accept externalities diagram to illustrate effects of indirect tax

**NB Award maximum of Level 3 if no diagram is included**

**Level 4 requires at least two impacts**

**Advantages may be presented as KAA and disadvantages as EV or vice versa**

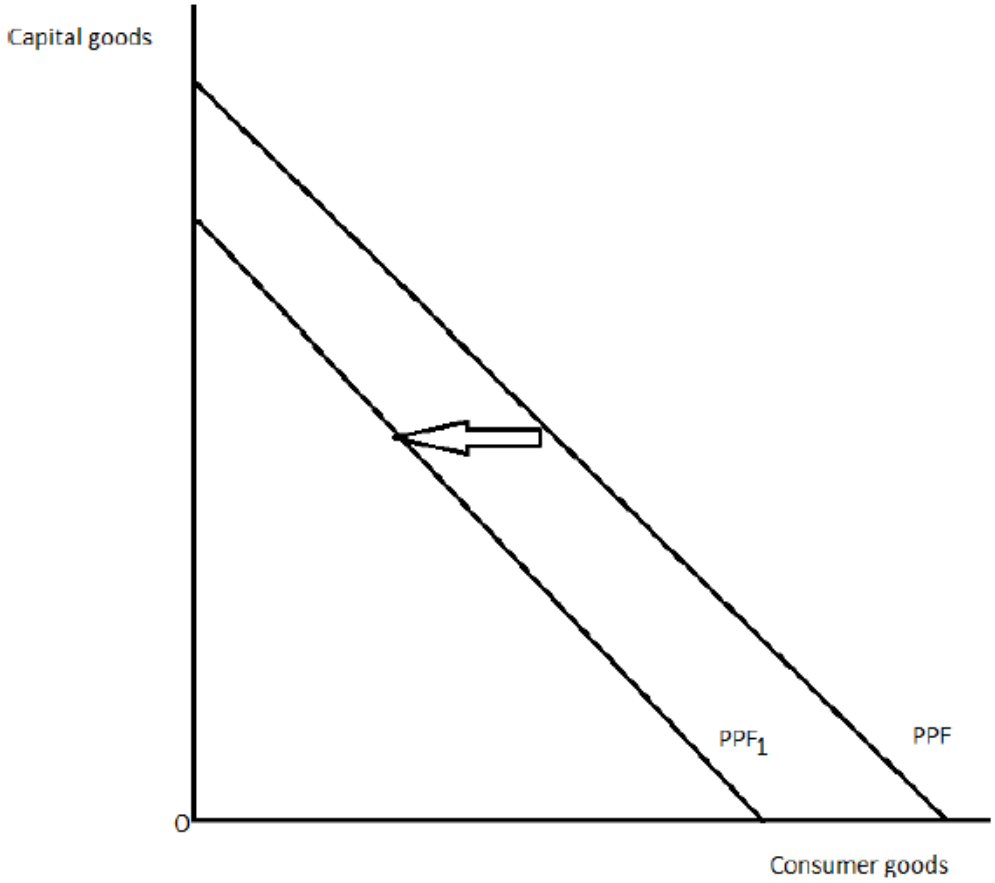
| Level | Mark | Descriptor |
|---|---|---|
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| **Level 1** | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach, which has no chains of reasoning. |
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| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

| | |
|---|---|
| | **Evaluation (8 marks) – indicative content**<br>• Depends on the size of the tax<br>• Highly inelastic demand for flights means relatively small impact on quantity<br>• Different effects on those travelling for business/leisure<br>• Information failure- government may not know the ideal rate of taxation<br>• Government failure- if it leads to net welfare loss<br>• Any measures to reduce flights may be offset by increases in the number of people using cars or lorries. Therefore, there may be little reduction in external costs<br>• Following the global health crisis, significant numbers have continued to work remotely-reduces the need to fly. Even without imposing indirect taxes the total number of aeroplane flights is likely to have fallen below 2019 levels. Therefore, global carbon emissions may already be below 2.5% |

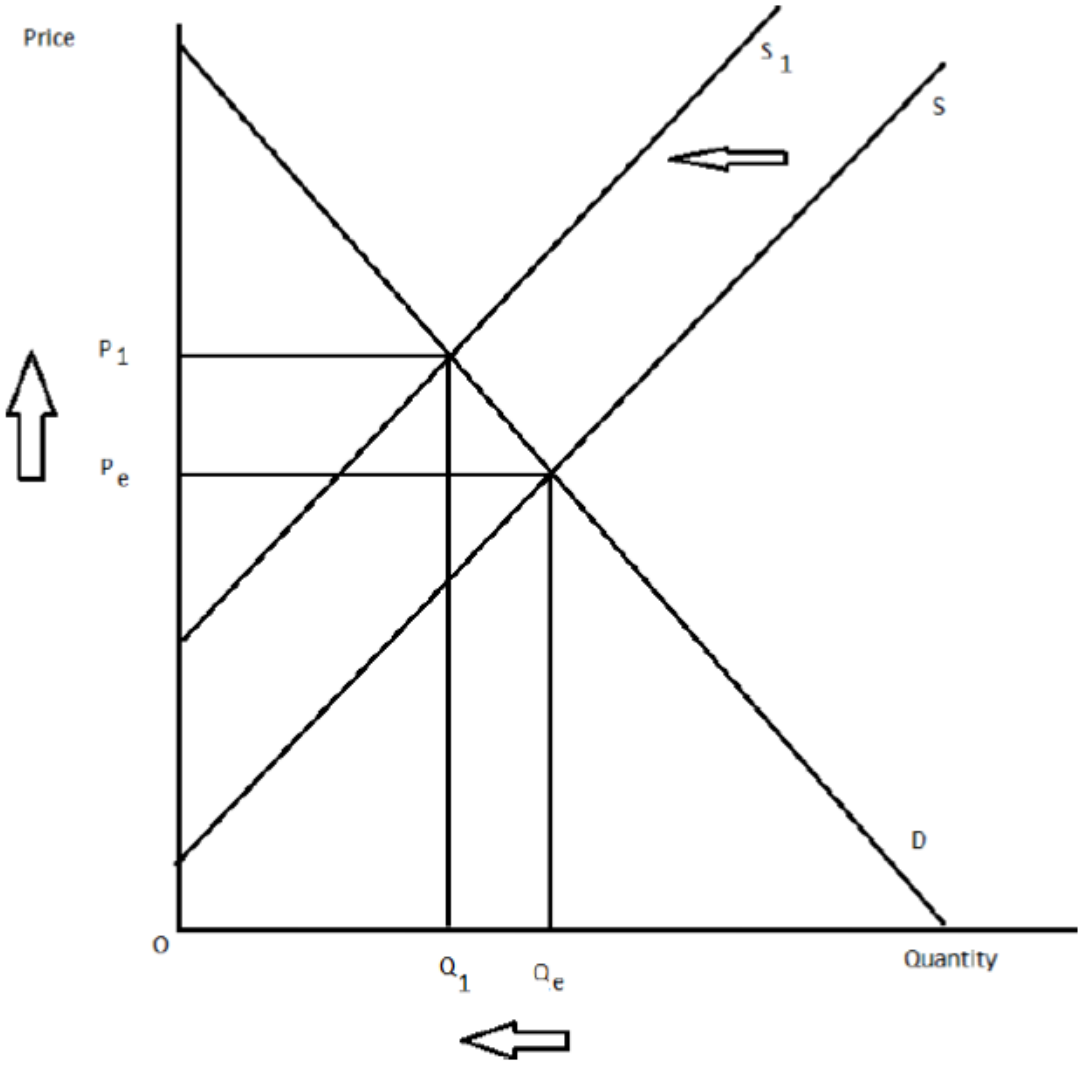
| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q21.

| Question | According to a German insurance company, global natural disasters have become more common in recent years. For example, there was an increase in natural disasters from 400 in 1990 to 820 in 2019.<br><br>Evaluate the microeconomic effects of an increase in the number of natural disasters.<br>Include at least one appropriate diagram in your answer.<br><br>Indicative content |
|---|---|
| | **Quantitative skills assessed**<br>**QS4**: Construct and interpret a range of standard graphical forms<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.<br><br>**Knowledge, application and analysis (12 marks) – indicative content**<br>• Natural disasters include earthquakes, flooding, monsoons, tornados, wildfires etc.<br>• Increased number of natural disasters from 400 to 820 between 1990 and 2019<br>• Production possibility frontiers in countries affected will be shifted inwards<br>• Reducing productive potential of these countries |




- Destruction of schools, hospitals, and power stations will reduce productive potential
- Supply in markets affected will be reduced- e.g. if crops are destroyed in a flood




- This will result in an increase in prices for these items as they are more scarce
- This will result in a reduction in quantity as less can be produced
- Some sectors will see increased demand and output-e.g. tents, blankets etc.
- Increased costs to insurance companies
- Financial loss to individuals if insurance pay-outs below value of items e.g. house rebuild costs

**NB Award maximum of Level 3 if no diagram is included**

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
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| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

| | |
|---|---|
| | **Evaluation (8 marks) – indicative content**<br>• There is no indication of the magnitude of the natural disasters- to determine the impact<br>• Size of the natural disaster will determine the size of reductions in supply or movement inwards of PPF e.g., more damaging earthquakes with epicentre in populous areas more damaging<br>• The Government is likely to step in to support areas affected- reducing impact on insurance markets and individuals<br>• Subsidies paid to support reconstruction, increase supply, lowering price and increasing quantity<br>• International support in terms of people and resources may reduce issues<br>• Consideration of difference between short-run and long-run microeconomic effects<br>• In the long-run resilience to natural disasters may improve- e.g., flood defences |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q22.

| Question | With reference to Extract A, explain **one** advantage of Apple using energy produced from renewable resources.<br><br>**Answer** | Mark |
|---|---|---|
| | **Knowledge 2 Application 2**<br><br>Quantitative skills assessed:<br><br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge**<br>1 mark for understanding of renewable resources:<br>• A resource that once used can be reused/used again and again/ Supply is unlimited/ infinite resource / Resource once used will regenerate quickly **(1)**<br><br>1 mark for an advantage<br>• Renewable energy is often cleaner/less polluting than non-renewables/fossil fuels **(1)**<br>• Will help reduce carbon emissions/external costs associated with non-renewable resources **(1)**<br>• Renewable resources do not use up/deplete the resource like non-renewable do **(1)**<br>• Prices of renewable resources are likely to be more stable than those of non-renewable resources **(1)**<br>• Demand for Apple products may rise if it is seen as an environmentally friendly business **(1)**<br><br>**Application**<br>Up to 2 marks for application:<br>• In 2020 100% of the energy used directly by Apple was from renewable resources **(1)**<br>• 213 of its suppliers had agreed to use only renewable resources to power production of Apple's products **(1)**<br>• Investment in a 2 300 acre solar project in Texas **(1)**<br>• A data centre in Denmark is powered by a solar park and wind farm **(1)**<br>• Supplier Keiwa in Japan will take its renewable energy from a wind farm **(1)** | **(4)** |

Q23.

| Question Number | With reference to the change in how electricity was generated, explain the difference between 'renewable resources' and 'non-renewable resources'.<br><br>Answer | Mark |
|---|---|---|
| | **Knowledge 2, Application 2**<br><br>**Knowledge**<br>2 marks for defining 'renewable resources' and 'non-renewable resources'<br>• Renewable resources are resources that can be used again and again/used repeatedly/resources that do not diminish/do not deplete/replenished naturally in short time **(1)**<br>• Non-renewable resources are resources that deplete with use/resources that do diminish/used up quicker than it can be replenished/supply is finite **(1)**<br><br>**Application**<br>2 marks for applying to the data in the table e.g.:<br>• Hydro/wind/solar are renewable **(1)**<br>• Coal/gas are non-renewable **(1)** | **(4)** |

Q24.

| Question | With reference to the **titles** of Extract A and Extract B, explain the difference between positive statements and normative statements.<br><br>**Answer** | Mark |
|---|---|---|
| | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Knowledge 2 Application 2**<br>**Knowledge**<br>1 mark for definition of positive statements:<br>• Based on facts/can be proven with evidence/value free/ objective/scientific approach to decision making **(1)**<br><br>1 mark for definition of normative statements:<br>• Based on value judgments/not based on facts/cannot be proven with evidence/ subjective/non-scientific approach to decision making **(1)**<br><br>**Application**<br>Up to 2 marks for application:<br>• 'World cotton price rises' is a positive statement as the price data/Figure1 can be used to prove prices rose **(1)**<br>• 'Clothing manufacturers should reduce environmental costs' is a normative statement as indicated by reference to 'should' **(1)** | **(4)** |

Q25.

| Question | Explain what is meant by 'positive economic statements'. Include **two** examples from the extracts to support your answer.<br><br>Answer | Mark |
|---|---|---|
| | **Knowledge 2 Application 2**<br><br>**Knowledge**<br>Up to 2 marks for definition of positive economic statements<br>• Statements that can be supported/proved or refuted **(1)** with evidence/ facts / empirical evidence / scientifically **(1)**<br>• Objective / not subjective **(1)**<br>• Statements that are value free / not based on value judgements **(1)**<br><br>**Application**<br>Up to 2 marks for application to data, e.g.:<br>• China imposing a ban on the import of plastic waste **(1)**<br>• Prices decreased from £373 per tonne in February to £215 in December 2017 **(1)**<br>• Plastic bags break down into smaller and smaller toxic pieces **(1)**<br>• A plastic bag takes between 400 to 1 000 years to break down **(1)**<br>• As it breaks down, plastic particles contaminate soil and waterways **(1)**<br>• Plastic bags cause over 100 000 marine animal deaths every year **(1)**<br>• Nearly 90% of the debris in our oceans is plastic **(1)**<br>• Food can be contaminated with toxins **(1)**<br>• The yearly consumption of plastic carrier bags in the EU is nearly 100 billion **(1)**<br>• 92% of carrier bags are single use **(1)**<br>• Around 3% of the marine litter in Europe is shopping bags. **(1)**<br>• In 1994 Denmark introduced a plastic bag tax of €0.27 per bag<br>• Before the tax 800 million bags were used in Denmark **(1)**<br>• After the tax this dropped to 400 million **(1)**<br>• The Danish Government found the tax on plastic bags raised just 0.03% of total tax revenue in 1995 **(1)** | **(4)** |

Q26.

| Question | In 2019, in Sweden, on average:<br>• households saved 16.5% of their incomes<br>• households borrowed 189% of their incomes<br>• a consumer made 349 debit card payments<br><br>With reference to the information above and your own knowledge, evaluate the role of financial markets in an economy.<br><br>**Indicative content** |
|---|---|
| | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>**Indicative content guidance**<br>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. |

| | |
|---|---|
| | **Knowledge, application and analysis (12 marks) – indicative content**<br>• Define financial markets- any market where financial products are traded<br>• Roles of financial products include<br>  ○ To facilitate saving- 16.5% of income saved by households<br>  ▪ So that consumers can save for future purchases of consumer goods/luxury goods/expensive goods/save for emergencies<br>  ▪ So that producers can save for future purchases/capital goods/save for when they have cash flow problems<br>  ▪ So financial providers have funds to be able to lend to consumers and firms<br>  ▪ Without the financial sector providing funds to businesses they will struggle to buy capital goods to improve the business/households will spend a long time saving to be able to make large purchases such as housing/cars<br>  ○ To make funds available to businesses<br>  ▪ Enabling businesses to fund investment in capital goods to make them more productive<br>  ○ To make funds available to individuals - households borrow 189% of their income<br>  ▪ Enabling consumers to improve their living standards by being able to consume more consumer goods<br>  ▪ Enabling consumers to consume now and to then pay back in future<br>  ○ To facilitate the exchange of goods and services- 349 debit card payments per year<br>  ▪ Reducing the need for firms to hold large quantities of cash- which is expensive to handle for businesses<br>  ▪ Enabling purchases to be made online without the need for cash to be transferred<br>  ▪ Making it easier for consumers and producers to trade with each other quickly<br>  ▪ Without the financial sector facilitating the exchange of goods and services consumers will need to use cash, this is difficult for online purchases and larger purchases/costs businesses to hold money |

| | |
|---|---|
| | ○ To provide forward markets in commodities and currencies<br>▪ This helps firms to buy products today at an agreed future price<br>▪ This helps make buying products from abroad/ commodities more predictable<br>▪ By agreeing the exchange using a forward market ensures that adverse movements in the exchange rate do not affect the business<br>▪ Without forward markets orders of commodities would be made and the price paid could vary significantly making it difficult to plan for both producer and consumer<br>○ To provide a market for equities<br>▪ Enables consumers to buy equities/shares in firms- to later earn a dividend each year<br>▪ Enables firms to raise finance by selling shares which helps businesses to expand/spend on capital goods<br>▪ Enables individuals to invest in businesses to earn dividends and to buy and sell shares to make profits<br>▪ Without providing a market for equities businesses would struggle to find the funds to expand |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach, which has no chains of reasoning. |
| **Level 2** | 4–6 | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence. |
| **Level 3** | 7–9 | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted. |
| **Level 4** | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question.<br>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence. |

| | |
|---|---|
| | **Evaluation (8 marks) – indicative content**<br><br>• With low interest rates the reward from savings will be minimal and few will save<br>• Market bubbles e.g. businesses and households may borrow too much causing asset prices to rise significantly<br>• Over lending by financial institutions may mean that businesses and households are not able to repay loans<br>• During economic crises businesses/households may not always be able to repay<br>• Moral hazard: financial providers may offer high risk loans which are unlikely to be paid back<br>• Banks may stop lending if they are worried about bad debts<br>• Financial providers often charge to facilitate the exchange of goods and services which increases costs of doing business<br>• Forwards markets in commodities and currencies may see you agree a price but you end up paying more than you would had you paid the market price on the future date<br>• Stock markets can be highly volatile such that firms can have share prices fall leading to losses<br>• There are no guarantees that dividends will be paid for example when firms make losses or invest |

| Level | Mark | Descriptor |
|---|---|---|
| | 0 | No rewardable material. |
| **Level 1** | 1–3 | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning. |
| **Level 2** | 4–6 | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning. |
| **Level 3** | 7–8 | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

Q27.

| Question | Quantitative skills assessed | Answer | Mark |
|---|---|---|---|
| | **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms | **The only correct answer is B**<br><br>**A** is not correct because furniture is not purchased using forward markets<br>**C** is not correct because smartphones are not traded on forward markets<br>**D** is not correct because clothing is not traded on forward markets | **(1)** |

Q28.

| Question | Define the term 'forward market'. (Extract A, line 10)<br><br>**Answer** | Mark |
|---|---|---|
| | **Knowledge 2**<br>**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.<br><br>1 mark for understanding of future price e.g.<br>• Priced in advance/<br>• At a future date/for future delivery **(1)**<br><br>1 mark for understanding of the following e.g.:<br>• Buyer and seller set an agreed price/<br>• For a commodity/gold/copper/foreign exchange/<br>• The forward market price for cocoa for 6 months' time more than doubled **(1)** | **(2)** |

Q29.

| Question Number | Quantitative skills assessed | Answer | Mark |
|---|---|---|---|
| | – | **The only correct answer is D**<br><br>***A*** *is not correct as forwards markets are found for commodities and currencies*<br><br>***B*** *is not correct as forwards markets are found for commodities and currencies*<br><br>***C*** *is not correct as forwards markets are found for commodities and currencies* | **(1)** |

Q30.

| Question | Quantitative skills assessed | Answer | Mark |
|---|---|---|---|
| | | **The only correct answer is A**<br><br>**B** is not correct because housing is not a commodity or currency<br>**C** is not correct because there is no forward market in higher education<br>**D** is not correct because street lighting is a public good that has non-excludability and non-rivalry | **(1)** |