



**General Certificate of Secondary Education
2014**

Economics

Paper 1

[G9271]

FRIDAY 23 MAY, AFTERNOON

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

Introduction

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[60] marks are allocated to the report-writing task for Paper 1. Candidates' reports will be marked holistically by examiners according to the following criteria. Candidates will be assessed on their ability to:

- recall, select and communicate their knowledge and understanding of economic concepts, issues and terminology [15];
- apply skills, knowledge and understanding to the context of the pre-released case study [18]
- analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions [27].

For each of the above assessment criteria there are four levels of response. If no success has been demonstrated for any criterion then no mark should be awarded for that criterion.

A level 1 response indicates a limited performance.

A level 2 response indicates a fair performance.

A level 3 response indicates a good performance.

A level 4 response indicates an excellent performance.

Report-writing task: anticipated responses

The following is an indication of the areas that candidates might be expected to cover in their report.

Outline the differences in the wages earned by selected occupations in 2011

Source 1 shows the average pay of a selected group of workers in 2011 and the percentage change in these rates since 2010. Key points include:

- Premier league footballers are the highest paid at £780 000 compared to hairdressers, the lowest paid profession who earned only £9599
- High skilled professional workers such as consultants and doctors are among the highest earners with annual incomes of £82 962
- Train drivers earnings are relatively high at £42 350
- Carpenters and joiners are in a lower group again earning on average £22 800
- Care workers and hairdressers are the lowest paid of the group with the latter earning only £9559
- Most groups secured increases in wages from 2010 with CEOs and directors receiving the highest increase at 15.3%
- Others such as doctors received lower increases possibly reflecting low public sector pay deals
- Some groups experienced drops in wages such as hairdressers who have had a 4.5% reduction.

Candidates are expected to give an overview of the trends in actual wages and percentage changes and use examples to illustrate points rather than discussing every individual occupation's rate of pay and pay increase.

Use the concepts of demand and supply to explain why some workers earn more than others.

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Factors that affect the **supply** of labour to the market include:

- Population – the introduction outlines the size of the UK's workforce and factors that affect the supply of workers such as education, skills and location
- Migration – Source 2 refers to the influx of social care workers from the EU and further afield and later in the source material, reference is also made to the emigration of younger, particularly skilled workers seeking employment abroad
- Skills and qualifications/Talent – Source 3 introduces the idea of highly skilled IT workers being in limited supply
- Trade Unions – bargaining power of trade unions may influence the supply of workers to particular professions
- Regulation – regulation of certain professions such as doctors and nurses
- Attractiveness of certain professions – again in Source 2, the social care sector has traditionally paid low wages and this has affected the supply of UK labour seeking work in this area
- Risk associated with certain jobs – certain jobs such as oil rig workers, police officers, fire-fighters or even nurses and medical workers in hospitals (based on reports of violence against health workers in A & E departments) may be perceived as high risk and this may limit the interest of people in pursuing these professions
- Global Influences – Source 3 refers to the global nature of the high skilled IT market and the time lag needed to source certain jobs. The limited supply of workers with such skill is relatively inelastic and by searching for such talent on a global scale, it is more likely to extend the potential pool of suitable candidates.

Factors that affect the **demand** for labour include:

- Source 2 outlines the increased demand for care workers as a result of the ageing population
- Demand for the output of labour – derived demand. For example, the in-demand IT workers mentioned in Source 3 can contribute considerable added value that helps businesses to increase productivity and remain competitive
- The introduction of new technology can create some new jobs but the general trend, as mentioned in Source 4, is that automated machinery can be invented to replace workers in all sections of the economy
- Economic prosperity affects demand for employment – the recession has affected overall demand for labour and the specific demand in sectors that are most affected by upturns and downturns in demand.
- Source 4 also refers to the increasing automation of production even in developing countries where manual labour has been traditionally cheap. Multinational companies are able to invest quickly in new technology when it becomes available and replace many poorly paid workers whose jobs can be automated affecting the demand for labour.

Candidates should give a range of possible reasons that affect **both** demand and supply drawing on the Sources 2 and 3 for supply side factors and Sources 2, 3 and 4 for the demand side factors.

Discuss how income inequality has grown in the UK.AVAILABLE
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Source 5 refers to the OECD report about the rapidly growing wage inequality between groups of workers in the UK. This contrasts greatly with pay rewards for average workers at a time of austerity that barely keep up with increases in inflation. Public sector workers have faced two year pay freezes and seen their real wages fall considerably.

Increases in income inequality can also be illustrated with reference to the graph entitled *% Change in real disposable income between 1999 and 2009*. This shows the percentage by which real income, income after tax deductions, has changed from the richest to the poorest groups.

The income of poorest 10% (decile group) has fallen by 12% while the income of all other groups has increased.

The richest 10% has received a 37% increase in income;

The increase in income for all the other groups in between, the richest and poorest has increased between 21% and 29% in this 10 year period, 1999–2009.

Overall, with the exception of the poorest 10% and the richest 10%, the income increase in lower income groups is slightly higher than that in the higher income groups – 25–29% compared to 21–22%. This suggests that there is some income redistribution to favour these slightly poorer households. However, given the extent by which the poorest and the richest groups has changed, it appears that income inequality grew considerably in the UK during this 10 year period. Candidates should draw on the data as evidence that inequality has grown.

Explain the possible Impact that growing wage inequality could have on the UK economy.

Candidates should identify potential economic and social consequences to the UK economy of growing income inequality. These include:

- Economic
 - o Hardship for low income families who may be unable to pay basic bills
 - o Increase in demand for benefits as low wage workers seek help
 - o Lower levels of tax recouped by the Treasury which has a knock on effect on the government's budget
 - o Increased levels of poverty
 - o Lower aggregate demand and sluggish economic growth.
- Social
 - o Potential civil and social unrest.
 - o More industrial action resulting in lost production.
 - o Widening divide between those who participate in higher education and those who don't
 - o Problems associated with financial exclusion, e.g. poor health

Discuss and recommend possible ways in which income inequality in the UK could be reduced.

There are a number of possible actions that could be taken by organisations, private employers and the government.

- In Source 8, the Pay Up campaign is essentially a bottom up approach with grass roots worker representatives trying to make moral and social arguments to persuade employers to pay workers higher wages and hence share out profits more equally.
If such campaigns are able to articulate well framed arguments in support of higher wages and win over public opinion, some employers may see benefit in adopting what could be perceived as a more socially responsible approach to pay awards. 'Happy workers' add to a positive company profile in competitive markets. However, if economic conditions remain poor and profits are squeezed, there may be little scope for this approach. Furthermore, workers may not become sufficiently organised behind an effective campaign.
- Increase the NMW – In 2012, the rate set for the NMW fell below the annual rate of inflation for the first time since its introduction in 1999. Many low paid workers have relied on tax credits to boost wages therefore increasing the NMW to a level considered to be nearer 'a living wage' makes more economic sense. There are arguments for and against this. It could cost employers and add to costs so this may be resisted. It could attract increasing numbers of people from EU partner countries seeking work. Clearly it would benefit the workers concerned and help to improve their standard of living. It may also reduce government spending on benefits.
- Differential between CEO and average workers' income could be reduced
The government has asked for the law to be changed so that the difference between the top paid employee and the average employee are published. Some CEO wage packages have not been approved by voters at AGMs and this marks a change in culture on this matter.
- Changes to taxes and benefits
Source 7 shows how changes in taxes and benefits introduced in the 2012 Budget are expected to affect different income groups (decile groups) up until 2015. VAT is a regressive tax so the increase to 20% has had a disproportionate effect on lower income households. A more progressive tax system that increases the taxes that higher income groups pay could relieve the pressure on lower income households who are also facing cuts in benefits.

All political parties have stressed the problems of the budget deficit and the need to make economies in public sector spending. However, they do not all agree on the timescale within which savings need to be made or the sacrifices that different income groups should make. Workers at the lower end of the wage spectrum feel that they are being harder hit than those at the top.

Any changes to public income and spending will affect some groups more than others and many changes are politically unpopular. Some proposals are costly to implement and some simply will not be effective in helping to redistribute income between groups.

- Increasing government spending on education, health and social care – the OECD's suggestion in Source 5 while important, may be difficult to implement in the current economic climate. There are pressures on government spending and any changes may take some time to be reflected in a rebalance of incomes

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between rich and poor. There is considerable discussion about young people from poorer families having better access to top universities and should this happen, it will take some years for this to work through and have an impact on wage rates in the economy.

- Reducing levels of unemployment in general contributes to narrowing income inequality. This can be achieved by fiscal, monetary and/or supply-side policies. The effectiveness of policy measures will depend on a number of factors including the prevailing economic conditions, the time needed for their impact to be felt and the relative support given to implement the policy.

Candidates should present proposals and make recommendations as to how the gap between high and low wages, and income inequality could be tackled and include discussion of the relative strengths and weaknesses of these proposed actions.

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Levels of response: guidelines for examiners

The following guidelines are provided for examiners in identifying levels of response for each assessment criterion:

(AO1) Recall, select and communicate their knowledge and understanding of economic concepts, issues and terminology:

Level of response	Description	Mark
0	No relevant concepts, issues and terms are included in the report.	0
1	Few relevant concepts, issues and terms are included in the report. There is only very restricted evidence of understanding. Quality of written communication is limited.	1–5
2	Relevant concepts, issues and terms are included in the report. There is some evidence of understanding. Quality of written communication is satisfactory.	6–9
3	Most of the report makes effective use of relevant concepts, issues and terms. There is evidence of good understanding. Quality of written communication is of a high standard.	10–12
4	The report makes extensive and skilful use of a wide range of relevant concepts, issues and terms. There is clear evidence of highly developed understanding. Quality of written communication is excellent.	13–15

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(AO2) Apply skills, knowledge and understanding to the context of the pre-released case study:

Level of response	Description	Mark
0	No relevant skills, knowledge and understanding are applied to wage differences and inequality.	0
1	A restricted range of basic skills, knowledge and understanding are applied to wage differences and inequality. Quality of written communication is limited.	1–6
2	Some relevant skills, knowledge and understanding are applied to wage differences and inequality. Quality of written communication is satisfactory.	7–10
3	A good range of relevant skills, knowledge and understanding are effectively applied to wage differences and inequality. Quality of written communication is of a high standard.	11–14
4	A wide range of relevant skills, knowledge and understanding are successfully applied to wage differences and inequality. Quality of written communication is excellent.	15–18

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(AO3) Analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions:

Level of response	Description	Mark
0	No relevant analysis, evaluation, judgement or conclusion provided.	0
1	Evidence is only superficially analysed and there is little attempt at evaluation. Basic judgements are made but tend to lack reasoning. Conclusions and recommendations are unsupported. Quality of written communication is limited.	1–9
2	Evidence is partially analysed and evaluated. Some relevant judgements are made but inadequately explained. Conclusions and recommendations are presented but insufficiently supported. Quality of written communication is satisfactory.	10–15
3	Most evidence is analysed and evaluated. Relevant and reasoned judgements are made. Conclusions and recommendations are appropriately presented and adequately supported. Quality of written communication is of a high standard.	16–21
4	Nearly all evidence is comprehensively analysed and evaluated. All judgements are well reasoned and consistent. Conclusions and recommendations are clearly presented and well supported. Quality of written communication is excellent.	22–27

Total

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60