



**General Certificate of Secondary Education
2016**

Economics

Paper 2

[G9272]

THURSDAY 9 JUNE, 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.

Section A		AVAILABLE MARKS
1	(a) A debit card is used as a method of payment for goods and services. When consumers pay using a debit card, money is deducted from their current account and transferred to the account of the payee.	
	Award [2] for a clear and accurate definition, [1] for a flawed or partial definition. (AO1: [2])	[2]
	(b) A credit card is used as a method of payment for goods and services that allows consumers to delay payment until later, typically a maximum of 55 days without having to pay interest. If consumers do not completely pay off their credit card bill, they are required to make a minimum monthly payment and after that, interest will be added to the outstanding balance.	
	Award [2] for a clear and accurate definition, [1] for a flawed or partial definition. (AO1: [2])	[2]
	(c) Consumers might use a credit card to pay for goods and services because: <ul style="list-style-type: none"> They do not have money to immediately pay for a good or service It could be an expensive item and they prefer to pay for it over a period of time They could be abroad and using a credit card for purchases is a convenient method of payment Using a credit card provides greater consumer protection should the item be faulty or the service does not meet the standard specified Of an emergency, e.g. car breakdown They are buying goods and services online. 	
	Award [2] for a clear explanation of an advantage, [1] for a partial explanation. (AO2: [2])	[2] 6

2 (a) Foreign aid is assistance provided mainly by developed countries to developing countries (LDCs). It can take many forms but increasingly the UK government provides aid in the form of expert personnel such as health care professionals and education specialists or even economists who can advise and support developing economies.

Award [2] marks for a clear and accurate explanation [1] mark for a flawed or partial definition.

(AO1: [2])

[2]

(b) Advantages of foreign aid include:

- Providing capital for investment in industry and infrastructure
- Supplying expert personnel who can work alongside the country's staff and contribute to major projects in building, health, education and defence
- Helping respond to emergencies, e.g. natural disaster, famine and disease.

Award [2] marks for clear advantage given, [1] mark for partial explanation.

[2]

(c) Disadvantages of foreign aid include:

- The type of aid may not be appropriate for the needs of the LDC, for example the aid may be tied. This may require the recipient country to trade with the donor country
- It may be squandered by corrupt officials/politicians and used ineffectively
- The LDC may become dependent on aid for economic development
- Opportunity cost as money could have been spent in other country.

Award [2] marks for clear disadvantage given, [1] mark for partial explanation.

[2]

6

AVAILABLE
MARKS

		AVAILABLE MARKS
3	(a) The exchange rate is the price of one currency in terms of another, for example, £1 = 1.2 euros	
	Award [2] marks for a clear and accurate explanation; [1] mark for a flawed or partial definition. (AO1: [2])	[2]
	(b) The euro is the single European currency currently used by 19 members of the European Union known as the Eurozone. It was introduced in 2002 and is currently worth approximately £0.79.	
	Award [2] marks for a clear and accurate explanation [1] mark for a flawed or partial definition. AO2: [2])	[2]
	(c) Possible advantages of the UK introducing the euro include: <ul style="list-style-type: none"> • Ease of trading and increased trade with other Eurozone members because there will be no need to exchange currency • An increase in foreign investment in the UK • There will be no need to exchange currency to travel within the Eurozone so more travel may be promoted. 	[2]
	Possible disadvantages include: <ul style="list-style-type: none"> • Consumers and businesses will have to switch over to using the euro and this will be costly and possibly difficult for some people to grasp • UK can no longer set its own interest rate as these would be set by the European Central Bank. Therefore there would be less control over monetary policy. • The euro has been unstable in recent years and this may affect investment. 	
	Award [2] for each clear description of an advantage or disadvantage of the UK joining the euro award [1] for a flawed or partial description. (AO1: [2] AO3: [2])	[2] 8
Total for Section A		20

Section B**AVAILABLE MARKS**

4 (a) Reasons why the government imposes indirect taxation include:

- To raise revenue to fund government spending such as health and education
- To redistribute income between rich and poor households, e.g. by providing pension credit and other benefits
- To control the level of demand in the economy
- To achieve environmental objectives, for example, through Vehicle Excise Duty or tax on plastic bags
- To discourage the consumption of demerit goods, for example, through taxing tobacco and cigarettes.

Award up to [2] marks for a valid reason and explanation.

(AO1: [2])

[2]

(b) A direct tax is levied directly on an individual or organisation, for example, income tax on people or corporation tax on firms. An indirect tax is levied on a good or service and people pay it when they buy these goods or services. Examples include VAT or excise duty on alcohol or fuel.

Award up to [2] for explaining what a direct tax is with a relevant example and up to [2] for explaining what an indirect tax is with a relevant example.

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

[4]

(c) The poorest fifth of households paid £3540 (27.2%) of their gross income in direct taxes while the richest fifth of households paid £20 360 (24%). One of the main direct taxes is income tax and richer households have higher earnings. The total amount of their money paid in direct tax over a year is higher than the poorest fifth of households who pay an average of £3540. Their annual income is lower and, therefore, their tax liability is lower. However, this represents a higher percentage of the overall income of poorer households suggesting that income tax is a higher burden on poorer households than high income households.

Allow up to [4] marks for correctly describing the differences in the amount of direct taxes paid by the richest and poorest households. Allow a maximum of [2] if the data is insufficiently used in the answer.

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

[4]

(d) The poorest fifth of households paid £1260 (9.8%) of their gross income in indirect taxes while the richest fifth of households paid £29 500 (11%). One of the main indirect taxes is VAT but other indirect taxes are excise duty, fuel tax and betting tax. The higher incomes of the richer households allows them to purchase more goods and services that are liable for indirect taxes such as VAT, fuel duty, stamp duty. However the percentage of total indirect tax paid is slightly higher (1.2%) than that paid by the poorest fifth of households which suggests that the total burden of indirect tax on these poorer households is lower than on the richer income households.

Allow up to [4] for describing the differences and explaining the link with total income. Allow a maximum of [2] if the data is insufficiently used in the answer.

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

[4]

(e) If rates of income tax are reduced, there will be a number of positive and negative effects on the economy. These include:

- Workers could have an added incentive to work as they will be paying a lower proportion of their income in tax
- Increased spending on goods and services and this could help boost the economy – injection into the circular flow but it could also be inflationary
- Total tax receipts could fall and the government may face a gap in revenue and have to raise more income elsewhere, or cut spending
- Spending on demerit goods may increase
- People could spend more of their disposable income on imports causing a worsening of the trade deficit.

Award up to [2] for each valid effect identified and explained ($2 \times [3]$)

(AO1: [3]; AO3: [3])

[6]

AVAILABLE
MARKS

20

	AVAILABLE MARKS
<p>5 (a) The main changes in the percentage of household income saved between 2007 and 2013 are as follows:</p> <ul style="list-style-type: none"> • From a starting position of 2% in 2007, the percentage of household income saved followed a general upward trend to reach a peak of 8.5% by midway through 2009 • Over the next three years there were small fluctuations with the percentage of income saved staying between 6% and 8% • Midway through 2012 there was a sharp dip to 4%, the same rate as at the start of 2009 • At the start of 2013 there was a slight increase to 6% <p>Allow up to [2] for correct identification of the trends and allow up to [2] for correct use of the data.</p> <p>(AO1: [2]; AO2: [2])</p>	[4]
<p>(b) There are a number of reasons why individuals may wish to save</p> <ul style="list-style-type: none"> • People may wish to save it before rates are high • An important reason for saving is to fund retirement. Pension contributions are a major form of saving • People may wish to save for expensive goods such as televisions or cookers • People may save for special occasions such as Christmas or a wedding • People may save in order to accumulate enough money for a deposit on a house • People may save so they have money for a financial emergency, a 'rainy day'. <p>Award up to [2] for each valid reason ($2 \times [2]$)</p> <p>(AO1: [2]): AO3: [2])</p>	[4]
<p>(c) There are a number of reasons why savers might choose an ISA even though other forms of saving offer a higher rate of interest.</p> <ul style="list-style-type: none"> • Interest paid on an ISA is tax free. The highest rate taxpayers could lose 45% of their interest in income tax • Some savings accounts with higher interest payments have notice periods which mean that savers cannot withdraw money immediately • A higher interest account may require the saver to save a fixed amount each month, some savers may prefer more flexibility • For some higher interest accounts there is a requirement to keep a large sum of money in the account and some savers may not have the required amount. <p>Allow up to [2] for each valid reason ($2 \times [2]$).</p> <p>(AO1: [2]; AO2: [2])</p>	[4]

(d) There are a number of advantages and disadvantages to the economy of an increase in saving. Possible answers include:

AVAILABLE
MARKS

Advantages

- Higher saving should reduce the level of consumer debt and this should lead to greater economic stability
- Higher saving will mean that there are more funds available for investment
- More saving will reduce the level of demand in the economy reducing the risk of inflation.

Disadvantages

- The main disadvantage would be that a rise in saving can lead to a fall in demand leading to slower growth and higher unemployment
- Specific sectors of the economy may be more adversely affected than others if people choose to save rather than spend, e.g. leisure industries such as tourism or luxury goods.

Allow up to [4] marks for each advantage and disadvantage ($2 \times [4]$).

(AO1 [3]; AO3: [5])

[8]

20

Total for Section B

40

Section C

AVAILABLE
MARKS

6 (a) Globalisation is the process by which the international economy has become more open and world markets for goods, services and capital have become more integrated. Globalisation is often associated with economic growth and improvements in the standard of living but it has also been criticised for making large multinational companies more powerful at the expense of the populations of the poorest countries.

The Economist magazine has described globalisation as the 'death of distance'. Globalisation is attributed with increasing the importance of trade in the world economy. There has been a huge growth in the number of multinational corporations. The increased integration is seen in factor markets as well as goods markets. There has been a growth in international financial flow and the international migration of labour.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of globalisation but it is limited and not developed. Quality of written explanation is limited.

Level 2 ([3]–[4])

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

A good understanding of globalisation with limited development.

Quality of written communication is satisfactory.

Level 3 ([5]–[6])

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

There is clear understanding and well developed explanation of globalisation with use of examples. Quality of written communication is of a high standard. [6]

(b) Globalisation has been caused by a number of factors. These include:

- Reduction of trade barriers has made trade more cost effective. The World Trade Organisation (WTO) has negotiated the reduction of tariffs across the world
- Improvements in technology, such as the internet, have made it easier for firms to trade internationally and to communicate with branches in other countries. This has aided the integration of markets
- Improvements in transport technology have made it cheaper to transport goods
- Multinational companies such as Samsung and Starbucks have built global brands and operate on a global scale
- Industrialisation in countries such as China and India have meant goods can be produced in a wider range of countries
- Multinationals have shifted production to Less Developed Countries to benefit from lower wages.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[3])

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

There is some understanding of the causes of globalisation but these are not well developed or limited. Quality of written explanation is limited.

AVAILABLE MARKS

Level 2 ([4]–[6])

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

There is a reasonable explanation of the causes of globalisation. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

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

There is a well developed explanation of the causes of globalisation.

Quality of written communication is of a high standard.

[9]

(c) Globalisation has a number of positive and negative impacts on UK consumers and producers. These include:

Impact on consumers

- Consumers have access to a wider range of goods and services due to imports or the arrival of multinational service providers, e.g. Starbucks
- Goods may fall in price due to cheaper imports from LDCs such as China
- Consumers may lose their jobs as firms close due to low cost imports or relocate production abroad
- Some consumers may be concerned about exploitation of labour and the natural environment resulting from globalisation.

Impact on businesses

- They may be able to increase exports
- It may be possible to relocate more easily to produce in low wage developing countries
- Cheaper components or raw materials from abroad may be available and this may help reduce average costs
- They may lose out to lower cost imports from abroad
- There may be tougher competition from foreign multinationals
- Businesses may be able to access cheaper finance or more advanced technology in other countries.

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[5])

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

There is some understanding of the impact of globalisation. Quality of written explanation is limited.

Level 2 ([6]–[10])

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

There is a good understanding of advantages and/or disadvantages of globalisation. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

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

A comprehensive understanding of the advantages and disadvantages of globalisation. Quality of written communication is of a high standard.

[15]

7 (a) Costs are payments made by firms for factors of production such as raw materials and labour. Therefore they include wages and electricity. Costs can be fixed, which means they do not vary with production or variable which means they change with output. Revenue is the money firms receive from selling its output. Total revenue is the average price multiplied by the total number of units sold.

AVAILABLE MARKS

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of either costs or revenue but it is not developed.

Quality of written explanation is limited.

Level 2 ([3]–[4])

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

There is some understanding of both costs and revenue with some development. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

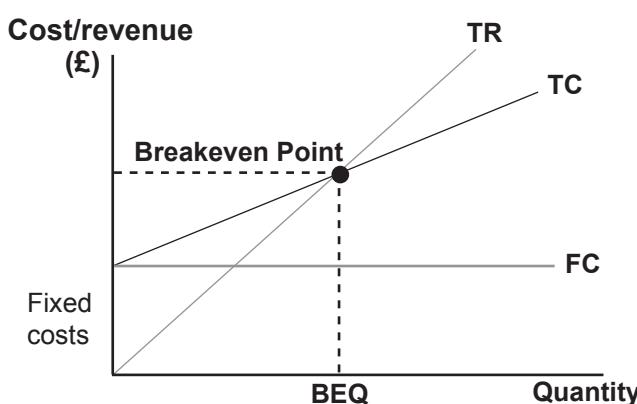
(AO1: [4]; AO2: [2])

There is a clear and well developed explanation of both costs and revenue.

Quality of written communication is of a high standard.

[6]

(b) Breakeven occurs when a firm's total revenue is equal to its total cost. At this point a firm is just covering its cost but it is not making a loss or a profit.



Candidates will be expected to explain that changes in FC, VC and TR will all impact on Breakeven Point.

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[3])

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

A limited explanation, there may be some attempt at a diagram but it contains errors. Quality of written explanation is limited.

Level 2 ([4]–[6])

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

A good explanation of breakeven with a diagram which is mostly correct.

Quality of written communication is satisfactory.

Level 3 ([7]–[9])

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

A detailed explanation of breakeven illustrated by an accurate and well labelled diagram. Quality of written communication is of a high standard. [9]

AVAILABLE MARKS

(c) Large businesses have a number of advantages and disadvantages for the economy. Advantages include:

- Large businesses may benefit from economies of scale – lower average costs can be passed on to consumers in the form of lower prices
- Large companies have more opportunities to export and this helps to improve the current account of the Balance of Payments
- A large company will create business for other companies by ordering supplies and components
- The company may make more profit increasing dividends for shareholders and tax revenue for the government
- It may invest profit into research and development improving technology.

The disadvantages large companies include:

- The company may suffer from diseconomies of scale leading to rising costs and greater inefficiency
- Large companies may eliminate rivals leading to less consumer choice
- Less competition may allow the company to raise prices exploiting consumers
- The greater profit made by the company may cause greater income inequality
- Large companies such as Amazon and Starbucks have been criticised for organising their affairs to reduce their tax liability in the countries in which they operate. This reduces tax revenue for the government and the benefits that this can bring to the public.

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[5])

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

Some understanding of the advantages or disadvantages of business growth. Quality of written explanation is limited.

Level 2 ([6]–[10])

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

Good understanding of advantages and disadvantages of business growth. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

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

Thorough examination of advantages and disadvantages of business growth. Quality of written communication is of a high standard. [15]

30

8 (a) Inflation is a general and sustained rise in the average level of prices over a period of time which is normally taken as a year. It is measured using a price index, in the UK the Consumer Price Index (CPI) is the official measure of inflation. Other measures of inflation include the Retail Price Index (RPI). All of these measures are calculated using a basket of goods and services weighted according to their importance in consumer spending.

AVAILABLE MARKS

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

Some understanding of how inflation is measured. Quality of written explanation is limited.

Level 2 ([3]–[4])

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

A good understanding of how inflation is measured. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

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

There is a clear explanation of how inflation is measured. Quality of written communication is of a high standard. [6]

(b) The government wishes to keep inflation low because of the costs that inflation can impose upon the economy. These costs include:

- Menu costs. Firms have to continuously adjust menus, price labels, computer systems etc as prices rise
- Shoe Leather Costs. Consumers time is absorbed by attempting to discover if price rises are specific to a firm or the result of inflation
- Savers lose out if the rate of inflation is greater than the rate of interest as the real value of their savings falls
- Those on fixed incomes lose out as their real incomes fall due to the rise in prices
- The economy can become less competitive leading to a fall in exports and a rise in imports if inflation is higher than in other economies
- High inflation can impact upon business confidence leading to a fall in investment
- There is the danger that inflation can become hyperinflation causing a loss of confidence in money and severe economic crisis.

Level 0 [0]

The response contains no content worthy of credit.

Level 1 ([1]–[3])

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

There is a limited explanation as to why government may wish to keep inflation low. Quality of written explanation is limited.

Level 2 ([4]–[6])

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

There is a reasonable explanation as to why government may wish to keep inflation low. Quality of written communication is satisfactory.

Level 3 ([7]–[9]) (AO1: [3]; AO2: [4]; AO3: [2]) There is a clear explanation as to why government may wish to keep inflation low. Quality of written communication is of a high standard. [9]	AVAILABLE MARKS
<p>(c) The government can pursue a number of policies to reduce inflation. These include:</p> <ul style="list-style-type: none"> • Raising taxes which will lower the level of demand in the economy • Cutting government spending • The Bank of England on behalf of the government may raise interest rates. 	
<p>These policies can impact upon other objectives in a number of ways and these include:</p> <ul style="list-style-type: none"> • Policies to reduce inflation are likely to reduce the level of demand in the economy. This could lead to a rise in unemployment • A fall in demand is also likely to reduce the rate of economic growth • If interest rates are increased then this could cause a rise in the value of the pound • A rise in the value of the pound could lead to a fall in exports and a rise in imports increasing the current account deficit • On the other hand the reduction in demand should lead to a fall in imports which might improve the deficit • An increase in taxes and a reduction in spending should lead to a reduction in the budget deficit • Increased consumer protection. 	
<p>Level 0 [0]</p>	
<p>The response contains no content worthy of credit.</p>	
<p>Level 1 ([1]–[5])</p>	
<p>(AO1: [1]; AO2: [1]; AO3: [3]) Some understanding of the impact of policies to reduce inflation. Quality of written explanation is limited.</p>	
<p>Level 2 ([6]–[10])</p>	
<p>(AO1: [2]; AO2: [2]; AO3: [6]) Good understanding of the impact of policies to reduce inflation. Quality of written communication is satisfactory.</p>	
<p>Level 3 ([11]–[15])</p>	
<p>(AO1: [3]; AO2: [3]; AO3: [9]) Thorough examination of the impact of policies to reduce inflation. Quality of written communication is of a high standard. [15]</p>	30

9 (a) A leakage is when money flows out of the circular flow of income. There are three main leakages; saving by consumers, taxation taken by the government, and imports of goods and services from other economies.

AVAILABLE MARKS

Level 0 [0]

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

Level 1 ([1]–[2])

(AO1: [2])

The response contains some understanding of leakages. Quality of written communication is limited.

Level 2 ([3]–[4])

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

There is a good understanding of leakages. The quality of written communication is satisfactory.

Level 3 ([5]–[6])

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

There is a clear understanding of leakages. The quality of written communication is of a high standard.

[6]

(b) There are three main leakages: savings, taxation and imports. All other things remaining equal a rise in leakages should lead to a decrease in the level of national income. If savings increase then more money is leaving the economy and less is spent causing a decline in the circular flow. However other changes can offset the impact of a change in leakages. For example, if an increase in taxation was used in its entirety to fund a rise in government spending then injections would have increased by the same amount as leakages ensuring no change in national income.

Other relevant examples are acceptable.

Level 0 [0]

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

Level 1 ([1]–[3])

(AO1: [2]; AO2: [2])

There is a limited explanation of the impact of a rise in leakages. The quality of written communication is limited.

Level 2 ([4]–[6])

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

There is a reasonable explanation of the impact of a rise in leakages. The quality of written communication is satisfactory.

Level 3 ([7]–[9])

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

There is a clear explanation of the impact of a rise in leakages. The quality of written communication is of a high standard.

[9]

(c) There are a number of arguments for and against government increasing spending to boost growth.

AVAILABLE MARKS

Arguments in favour would include:

- Higher government spending would help boost economic growth by increasing the level of injections
- Higher growth might be self financing for the government as it should lead to higher tax revenues which could finance the higher government spending
- Economic growth should lead to increased living standards
- Higher growth should lead to higher employment and lower unemployment.

Arguments against include:

- Higher spending could lead to an increase in government borrowing which is already at high levels
- Higher growth may lead to environmental problems such as global warming or pollution
- Higher growth can cause other problems such as inflation or a current account deficit
- Higher government spending may generate inefficiency.

Level 0 [0]

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

Level 1 ([1]–[5])

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

There is a limited discussion of whether the government should increase spending to promote economic growth. The quality of written communication is limited.

Level 2 ([6]–[10])

(AO1: [2]; AO2: [3]; AO3: [6])

There is a reasonable discussion of whether the government should increase spending to promote economic growth. The quality of written communication is satisfactory.

Level 3 ([11]–[15])

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

There is a clear explanation of whether the government should increase spending to promote economic growth. The quality of written communication is of a high standard. [15]

30

Total for Section C

30

Total

90