



**General Certificate of Secondary Education  
2017**

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**Economics**

**Paper 2**

**[G9272]**

**THURSDAY 8 JUNE, AFTERNOON**

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**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 production possibility frontier shows the combinations of goods and services which can be produced with existing resources over a given time period.
- Award [2] for a clear and accurate explanation; or [1] for a flawed or partial definition.  
(AO1: [2]) [2]
- (b)** Opportunity cost is the next best alternative foregone as a result of an economic decision.
- Award [2] for a clear and accurate explanation; or [1] for a flawed or partial definition.  
(AO1: [2]) [2]
- (c)** 2000 smartphones
- Allow [2] for the correct number; or [1] if the answer is given without the units in thousands.  
(AO2: [2]) [2]
- 2 (a)** A mortgage is a long term loan secured on property. It is typically used to buy a house.
- Award [2] for a clear and accurate definition; or [1] for a flawed or partial definition.  
(AO1: [2]) [2]
- (b)** A fixed rate mortgage is one where the rate of interest is fixed for a set period of time typically between 2 and 5 years.
- Award [2] for a clear and accurate definition; or [1] for a flawed or partial definition.  
(AO1: [2]) [2]
- (c)** Possible advantages include:
- More people are able to own their own home
  - It might stimulate an increase in house building generating more jobs and increasing economic growth
- Possible disadvantages include:
- Borrowers may take on debt they are unable to repay
  - It may force up the price of housing to unsustainable levels
- Award [2] for each clear description of an advantage and a disadvantage of an increase in mortgage lending; or award [1] in each instance if an answer is flawed or partially correct.  
(AO1: [2] AO3: [2]) [4]

6

8

- 3 (a) The rate of inflation is the rate at which the general level of prices in the UK, as measured by the CPI, has increased over a set period of time which is usually taken as a year.

Award [2] for clear and accurate explanation; award [1] for partial or flawed explanation.

(AO1: [2])

[2]

- (b) A low rate of inflation, such as that experienced by the UK in the first half of 2016, may have the following effects.

(i) Consumers

Possible responses include:

- The cost of living will remain relatively stable and this should help consumers to plan and budget with more confidence.
- Consumers whose income is rising at a faster rate than the rate of inflation should be better off in real terms.

Award [2] for a relevant and accurate explanation of an effect; or [1] for a flawed or partial answer.

[2]

(ii) Businesses in the UK

Possible responses include:

- A low rate of inflation in the UK may help businesses to keep costs low and prices stable.
- This may help businesses to compete more effectively in international markets.

Award [2] for a relevant and accurate explanation of an effect; or [1] for a flawed or partial answer.

[2]

**Total for Section A**

**AVAILABLE  
MARKS**

6

**20**

## Section B

AVAILABLE  
MARKS

- 4 (a) Allow [1] for each of the following:
- Vertical axis chosen to show price of ice cream and labelled [1]
  - Horizontal axis drawn to show quantity of ice cream and labelled [1]
  - Demand curve correctly plotted [1]
  - Supply curve correctly plotted [1]
  - Equilibrium number of tubs of ice cream shown at 3000 [1]
  - Market price shown at £3.50 [1]
- (AO2: [6]) [6]
- (b) Allow [2] for correctly plotting the new demand curve and allow [1] for indicating the new equilibrium price at £4 and [1] for the equilibrium quantity at 4000.  
(AO2: [4]) [4]
- (c) (i) If the price of cream falls, the cost of raw materials will fall leading to an increase in supply and a fall in price.
- Award up to [2] for an explanation of why price falls.  
(AO2: [2]) [2]
- (ii) If consumers' incomes rise they will spend more on ice cream causing a rise in demand and a consequent rise in price.
- Award up to [2] for an explanation of why price rises.  
(AO2: [2]) [2]
- (d) (i) This could affect consumers in a number of ways including:
- they may feel that the product is no longer a luxury item and may switch to some of the other luxury products in the market
  - larger producers may have lower costs, therefore consumers may benefit from lower prices
  - larger producers may reduce the quality of the ice cream
  - providing greater choice if it becomes more widely available
- (ii) Other producers will recognise that this expanded firm is trying to compete in both the luxury and everyday sections of the market. The other producers of luxury ice cream may introduce additional competitive actions such as:
- lowering their price
  - increasing their advertising and other forms of marketing
  - introducing product ranges such as new flavours of ice cream
  - selling their ice cream through a wider range of outlets, e.g. by opening their own shops
  - strengthening their own market position through a merger or acquisition
- Award up to [3] for each valid explanation ( $2 \times [3]$ ).  
(AO3:  $[3] \times 2$ ) [6]

20

- 5 (a) Public spending in Northern Ireland at £10 961 per person is:
- Higher than the UK average of £8936
  - Higher than any other region of the UK – the next highest is Scotland at £10 275

Award [2] for noting the differences, [2] for use of the data to support the points made.

(AO2: [2] × 2)

[4]

- (b) Advantages of cutting public spending include:

- Reduce public sector dependency and allow private sector to grow
- Reduces the government's public sector spending commitment to Northern Ireland
- Allows for cuts in taxation for businesses which could attract inward investment

Disadvantages may include:

- Loss of public sector jobs in Northern Ireland
- Reduction in quality of public services
- Possible adverse impact upon the poorest groups in society who may be most affected by cuts in areas such as welfare and health

Allow up to [3] for each advantage and disadvantage with explanation.

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

[6]

- (c) Corporation tax is the tax paid by companies on their profits.

Award up to [2] for an accurate definition.

(AO1: [2])

[2]

- (d) Cutting corporation tax can lead to existing companies retaining more of their profit. This might make it more likely for companies to invest in creating more jobs. In addition overseas companies might be attracted to invest in Northern Ireland creating further jobs.

Allow up to [4] for developed explanation.

(AO1: [2] AO3: [2])

[4]

- (e) Investment to improve the quality of the workforce could include improvements in education and/or development of work related skills.

A more skilled and educated workforce will be:

- More productive and improve competitiveness
- More flexible and able to cope with change
- Make Northern Ireland a more attractive place for investors and particularly those in specialist sectors such as engineering, technology and professional services.

Allow up to [4] for developed explanation.

(AO1: [2] AO3: [2])

[4]

AVAILABLE  
MARKS

20

**Total for Section B**

**40**

## Section C

AVAILABLE  
MARKS

- 6 (a) Social costs are the total cost to the economy of any economic activity. They comprise two components, private costs and external costs. Private costs are costs borne by producers or consumers of a good or service. Examples might include a firm's wage or electricity bill or the price a consumer pays for a good. External costs are costs borne by those who neither produce nor consume the good and are sometimes known as third party costs or negative externalities. Examples can include noise or smells suffered by residents living beside a factory.

**Level 0 [0]**

There is no content worthy of credit.

**Level 1 ([1]–[2])**

(AO1: [2])

Some understanding of social costs but it is limited and not developed. Quality of written communication is limited.

**Level 2 ([3]–[4])**

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

Candidate has a good understanding of social costs but 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 social costs with use of examples. Quality of written communication is of a high standard.

[6]

- (b) The social costs and benefits include:

<b>Private costs</b> Companies producing and using fossil fuels have a range of costs to meet such as machinery, wages, marketing etc.	<b>Private benefits</b> Companies involved in the production and use of fossil fuels make profit from their production and this helps their business to compete and grow.
<b>External costs</b> The production and transport of fossil fuels can generate significant external costs, e.g, leaks from oil tankers, spoiling of the natural environment through open cast mining. The burning of fossil fuels generates greenhouse gases leading to climate change which is generating significant external costs in terms of flooding, species extinction etc.	<b>External benefits</b> Workers involved in the production of fossil fuels earn an income. Governments earn revenue from taxing the production and consumption of fossil fuels. Fossil fuels provide relatively cheaper ways of generating electricity and powering transport than the most current alternatives.

**Level 0 [0]**

There is no content worthy of credit.

**Level 1 ([1]–[3])**

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

There is some understanding of the social costs and benefits of the production and use of fossil fuels but it is not well developed. Quality of written communication is limited.

**Level 2 ([4]–[6])**

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

There is a reasonable explanation of the social costs and benefits of the production and use of fossil fuels. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

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

There is a well developed explanation of the social costs and benefits of the production and use of fossil fuels. Quality of written communication is of a high standard. [9]

- (c) Phasing out the burning of fossil fuels may have a number of effects on individuals, firms and the economy as a whole.

Individuals

- The cost of energy may rise reducing the amount of income available for spending on other goods
- Transport costs may rise restricting people's choices regarding holidays or where they live in relation to work
- Individuals working in the fossil fuels industries may lose their jobs

Firms

- Firms engaged in the production of fossil fuels will have to diversify or close down. They will see a fall in their profits
- Firms engaged in the production of alternative forms of energy may see a rise in sales
- All firms may face a rise in energy costs

Economy as a whole

- A rise in energy costs may push up all prices leading to higher inflation
- The government may lose revenue earned from taxing fossil fuels
- In the longer run the economy may benefit from not having to adapt to severe climate change

**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 ending the burning of fossil fuels. Quality of written communication is limited.

**Level 2 ([6]–[10])**

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

There is a good understanding of the impact of ending the burning of fossil fuels. Quality of written communication is satisfactory.

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**Level 3 ([11]–[15])**

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

A comprehensive understanding of the impact of ending the burning of fossil fuels. Quality of written communication is of a high standard. [15]

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MARKS

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- 7 (a) An exchange rate is the price of one currency in terms of another currency or group of currencies, e.g. £1 = \$1.60. Like any price the exchange rate is determined by the forces of demand and supply and will be affected by factors such as trade, speculation and interest rates.

**Level 0 [0]**

The response contains no content worthy of credit.

**Level 1 ([1]–[2])**

(AO1: [2])

Some understanding of exchange rates but the explanation is limited. Quality of written communication is limited.

**Level 2 ([3]–[4])**

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

There is a good understanding of exchange rates 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 exchange rates. Quality of written communication is of a high standard. [6]

- (b) A rise in the value of the pound against the euro will affect business costs. Imports of raw material and components will be cheaper. This should lead to a fall in some business costs depending on how much of a firm's inputs are imported from the Eurozone. Ceteris paribus this would lead to a rise in profit. However, the increase in the value of the pound will also affect revenue. As exports are more expensive their sales may fall and this could lead to a fall in revenue. Also imported goods from the Eurozone will now be cheaper so firms may face a fall in UK sales again lowering revenue.

**Level 0 [0]**

The response contains no content worthy of credit.

**Level 1 ([1]–[3])**

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

A limited explanation of the impact of a rise in the exchange rate on a firm's costs or profit. Quality of written communication is limited.

**Level 2 ([4]–[6])**

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

A good explanation of the impact of a rise in the exchange rate on a firm's costs or profit. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

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

A detailed explanation of the impact of a rise in the exchange rates on a firm's costs and profits. Quality of written communication is of a high standard. [9]

- (c) A rise in the value of the pound (£) will impact upon the government's economic objectives in a number of ways:
- Balance of Payments. The rise in the exchange rate will, ceteris paribus, make imports cheaper and exports more expensive. As a result imports may rise and exports fall meaning the current account deficit widens
  - Economic Growth. If exports fall and imports rise there will be a fall in the level of demand in the economy leading to a slowdown in economic growth
  - Unemployment. With a fall in demand for both exports and goods sold in the domestic market unemployment is likely to rise
  - Inflation. As the price of imports has fallen inflation is likely to fall.

**Level 0 [0]**

The response contains no content worthy of credit.

**Level 1 ([1]–[5])**

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

Some understanding of how the rise in the value of the pound may affect some government economic objectives. Quality of written communication is limited.

**Level 2 ([6]–[10])**

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

Good understanding of how a rise in the value of the pound may affect the government's economic objectives. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

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

Thorough examination of how a rise in the value of the pound may affect the government's economic objectives. Quality of written communication is of a high standard. [15]

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MARKS

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- 8 (a) Unemployment can be measured in two ways. The ILO Labour Force Survey is a survey of a representative sample of the labour force and from that the number of unemployed workers is calculated. The Claimant Count method records the number of people claiming Job Seekers Allowance. The Labour Force Survey is the official measure of unemployment.

**Level 0 [0]**

The response contains no content worthy of credit.

**Level 1 ([1]–[2])**

(AO1: [2])

Candidate displays some understanding of one way in which unemployment is measured. Quality of written communication is limited.

**Level 2 ([3]–[4])**

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

Candidate shows a good understanding of how unemployment is measured by either method. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

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

There is a clear explanation of both methods of measuring unemployment including knowledge that the Labour Force Survey is the official measure. Quality of written communication is of a high standard. [6]

- (b) Unemployment imposes a range of costs on the economy. These include:
- A loss of output that unemployed workers would produce. This is the opportunity cost of unemployment
  - Firms will face a loss of demand as consumers have less income; this could lead to a loss of profit
  - The government will face a loss of tax revenue as falling income will lead to a decline in income tax and falling spending to a decline in VAT receipts
  - More money will have to be spent on unemployment benefits
  - Long term unemployment may lead to health issues and further cost to the economy.

**Level 0 [0]**

The response contains no content worthy of credit.

**Level 1 ([1]–[3])**

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

There is a limited explanation of the costs of unemployment. Quality of written communication is limited.

**Level 2 ([4]–[6])**

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

There is a reasonable explanation of some of the costs of unemployment. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

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

There is a clear explanation of a range of costs of unemployment. Quality of written communication is of a high standard. [9]

- (c) Supply-side policies are designed to boost the aggregate supply of goods and services. This in turn should boost economic growth and lead to an increase in employment. It may also lead to an increase in exports as more goods and services will be available to sell abroad. Inflationary pressure will also ease as there are more goods and services to satisfy aggregate demand.

Supply-side measures include creating incentives for firms and workers to increase their output and productivity. For example, the government may provide subsidies to attract more private investment, particularly for Research and Development.

Other measures may include changing the rules on pay, tax and welfare to make work a more attractive option. Examples of these in recent times include the introduction of the National Minimum Wage (and the National Living Wage), changes to the welfare system including stricter rules for disability benefits, and more generous personal allowance thresholds for

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income tax. Other notable changes may include changing the legislation on unfair and anti-competitive practices and this affects large and powerful firms. Changes in legislation have also affected the power of trade unions and their ability to take industrial action.

Supply-side measures target the behaviours of particular groups – consumers, workers and firms and if they operate effectively, they can have a considerable impact on the economy and increase aggregate supply. However, some measures have a considerable impact on particular groups of people, e.g. the disabled or the long term unemployed. Government may also use other policies to boost aggregate demand, e.g. Fiscal Policy, Monetary Policy and Exchange Rate Policy.

#### **Level 0 [0]**

The response contains no content worthy of credit.

#### **Level 1 ([1]–[5])**

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

Candidate shows some understanding of supply side measures with limited analysis of their effect on employment. Quality of written communication is limited.

#### **Level 2 ([6]–[10])**

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

There is a good understanding of supply side measures with reasonable analysis of their effect on employment. Quality of written communication is satisfactory.

#### **Level 3 ([11]–[15])**

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

Good understanding of supply side measures with detailed analysis of their effect on employment. Quality of written communication is of a high standard.

[15]

30

- 9 (a) The national minimum wage (NMW) is the legal minimum wage set by the government. It is the same across all parts of the UK. It is illegal to pay below the minimum wage. A diagram may be used (although not specifically asked for in the question) to illustrate the effects of setting a national minimum wage rate that is higher than the market rate on the demand and supply of labour. In the UK, low paid workers have benefited since 1999 when the NMW was introduced. The new NLW will have the same impact but the level of wages will be higher than that of the NMW which was considered to be too low to support a reasonable quality of life.

#### **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 the national minimum wage. Quality of written communication is limited.

**Level 2 ([3]–[4])**

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

There is a good understanding of the national minimum wage. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

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

There is a clear understanding of the national minimum wage. Quality of written communication is of a high standard. [6]

(b) There are a range of reasons why some workers receive low pay. These include:

- Level of skill. Less skilled workers tend to earn lower wages than those who are more skilled
- Educational attainment. Low paid workers tend to have few educational qualifications
- Trade Unions. Workers who are not members of trade unions may receive lower wages than unionised workers in the same profession
- Discrimination. Women and workers from ethnic minority backgrounds are more likely to receive low pay than other workers
- Supply and demand. Occupations where the supply of labour is high relative to demand tend to be lower paid.

**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 reasons for the workers earning low pay. Quality of written communication is limited.

**Level 2 ([4]–[6])**

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

There is a reasonable explanation of reasons for the workers earning low pay. Quality of written communication is satisfactory.

**Level 3 ([7]–[9])**

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

There is a clear explanation of reasons for the workers earning low pay. Quality of written communication is of a high standard. [9]

(c) The creation of a National Living Wage will have a number of effects on:

Individuals

- Low paid workers, aged 25 or over, and not in the first year of an apprenticeship will see their wages rise leading to a higher standard of living
- Workers under 25 will not enjoy the benefit of this hourly rise in the rate of pay
- If employers cannot afford to pay the higher wages some workers may lose their jobs

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## Firms

- Firms' costs may rise as they have to pay higher wages to some workers. They will face a fall in profits or in the worst case may go out of business
- As low paid workers have higher wages they may spend more and some firms may see a rise in demand for their products

## The economy as a whole

- Unemployment may rise as firms cannot afford to employ as many workers
- Firms may increase their prices in order to pay higher wages. This will cause a rise in inflation
- The UK may become less competitive due to higher wages leading to less exports and more imports
- The government may see an increase in tax revenue as wages rise. They may have to spend less on benefits and tax credits.

**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 on the impact of the introduction of a national living wage on individuals, firms and the economy as a whole. Quality of written communication is limited.

**Level 2 ([6]–[10])**

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

There is a reasonable discussion on the impact of the introduction of the national living wage on individuals, firms and the economy as a whole. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

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

There is a clear and well developed discussion on the impact of the introduction of a national living wage on individuals, firms and the economy as a whole. Quality of written communication is of a high standard. [15]

**Total for Section C**

**Total**

**AVAILABLE  
MARKS**

30

30

90