



General Certificate of Secondary Education
2018

Economics

Paper 1

[G9271]

MONDAY 4 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.

Introduction

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 marks);
- apply skills, knowledge and understanding to the context of the pre-released case study (18 marks);
- analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions (27 marks).

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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.

1. Introduction

Candidates should write a concise and clear introduction that reflects the task that has been set.

2. Describe the changes in how consumers paid for goods and services between 2011 and 2015.

Key points are:

- Cash transactions fell relative to those made by debit and credit cards. Source 1 states there was a 10% fall in the use of cash over the past ten years.
- Source 1 states that the proportion of payments made by credit and debit cards increased.
- Source 1 states that credit card transactions accounted for £180 billion (2015)
- Source 1 states that debit card transactions accounted for £440 billion (2015)
- The value of debit card purchases increased steadily from £324 billion to approximately £440 billion between 2011 and 2015.
- The value of credit card purchases increased from £151 billion to £180 billion.
- In 2015, 22% of payments were contactless (1:5) and this trend based on new technology was expected to grow.
- Changes in technology have introduced different ways to pay, i.e. using smart phone or ApplePay.

3. Description of recent changes in UK consumer debt.

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Source 2: UK Consumer Debt includes the following key points:

- Annual percentage change in both credit cards and other loans have steadily increased from 2013 to 2016.
- In 2013, other loans were also growing at 2% per year and this increased to 11% by 2016.
- There were fewer payday loans made per month following the new rules introduced in 2015 by the FCA that limited the amount that loan company could charge for the final debt repayment.
- People are getting into more debt with local authorities and utility companies, and are replacing payday loans with longer term instalment loans (Source 2).
- Unsecured borrowing grew by £20 billion.
- Average unsecured debt was £9000.

Candidates may also include the following points from Source 3:

- Step Change, the leading debt charity, has reported an increase in demand for their services, e.g. over $\frac{1}{2}$ million people made direct contact since 2012 and there was a 97% increase in website visits.
- Between 2011 and 2015, the percentage of their clients who owed money on basics, such as rent and utility bills, increased from 25% to 40%.

4. Discussion of possible causes of UK consumer debt.

Possible causes of consumer debt include:

- The introduction suggests that consumer debt is becoming a more accepted part of everyday financial life.
- Reasons for this growth include the easier availability of credit facilities as new credit products were being made available (sold) by the financial sector.
- Interest rates have been at historically low levels so it has been cheaper to service standard debt (rates still remain very high on new instant credit products and pay-day loans such as those advertised on day-time television)
- Some people may have run up debts because they are poor at managing their finances.
- Some people have struggled to meet financial commitments in a period of austerity and cut backs, so they rely on credit to meet daily needs.
- Changing financial circumstances and demand may have contributed to household debt such as becoming a parent, the number of children in a family, and age as charities report that young people are more likely to be in debt than others (Source 3).
- Car finance has become much cheaper (Sources 4) and contributed to a 22% increase in sales leading to a rise in debt in just one year from 2014–2015; over the four year period from 2011-2015, the value of sales increased from approximately £14 billion to £28 billion, a 100% increase leading to a rise in debt.
- Source 4 suggests that lenders are offering new products or better conditions on existing products (such as longer interest-free periods or lower balance transfer fees), in order to attract more borrowers.
- Increasing consumer confidence has led to increased spending and greater use of credit. Hence, levels of debt have increased.

5. Discussion of the possible benefits of consumer debt to UK consumers and business.

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Source 5 suggests that consumer debt provides benefits for individuals and the economy. Key points include:

- People can consume goods and services bought on credit and pay off loans – this allows them to increase their standard of living.
- Debt allows people to smooth out consumption of goods.
- Loans are used to pay for education and this can help improve the quality of the workforce.
- Loans are also used for house purchase so effectively consumers are paying off an asset over their working lifetime as well as providing a home for their family
- Car purchase has been a growing area of consumer debt and the availability of finance by car dealers has helped to promote demand. New cars are consumer durables that bring satisfaction to consumers. If consumers demand more cars, this helps UK car businesses, both retailers and manufacturers.
- Source 6 suggests that the economic recovery experienced since the 2008 economic collapse has been built on the growing levels of debt. When consumers use credit to buy goods and services, this increases aggregate demand throughout the economy, and businesses in general, will benefit. This is effectively an injection into the circular flow of income promoting employment and production in the economy. This will benefit businesses.

6. Evaluation of how an increase in the UK base rate of interest may affect economic growth, employment and inflation.

Source 7 shows that the base rate of interest was reduced in August 2016 to a new record low of 0.25%. For the previous nine years, it had been set at what had also been a record low of 0.5%. Given this very low rate, it is anticipated that it cannot fall much further and at some point, it will have to rise. Source 6 suggests that high rates of consumer debt make it harder for the Bank of England to increase interest rates because of the likely impact on indebted households.

If the base rate of interest rises, other interest rates will adjust upwards. These include the rates on Standard Variable, Tracker and Fixed rate mortgages. Rates on savings accounts should also increase (Source 7).

Any change in interest rates will trigger a range of responses in the economy including:

- Consumer spending will fall as servicing debt and making mortgage payments become more expensive.
- Source 8 suggests that there are 3.8 million people spending more than 40% of their income servicing their debt so for this group, a rise in interest rates could cause many to default on their mortgage repayments causing a spurt of repossession.
- If real wages remain stable, price increases should start to slow reducing pressure on the CPI measure of inflation.
- Higher interest rates may attract foreign capital creating demand for the pound and an appreciation of the exchange rate
- Economic growth is likely to slow further if consumer spending falls and unemployment start to rise, possibly causing the UK economy to return to recession (Source 5)

- However, following the Brexit vote, the drop in economic growth may be stalled if the exchange rate falls and the drop in domestic consumer spending is replaced by increased spending from overseas attracted by the lower exchange rate.

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As the UK prepares to leave the EU, it is possible that there will be economic turbulence. Credit will be given where candidates make relevant reference to Brexit developments that relate to the case study topic.

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 the topic of the effects of consumer credit and debt on the UK economy.	0
1	A restricted range of basic skills, knowledge and understanding are applied to the topic of the effects of consumer credit and debt on the UK economy. Quality of written communication is limited.	1–6
2	Some relevant skills, knowledge and understanding are applied to the topic of the effects of consumer credit and debt on the UK economy. Quality of written communication is satisfactory.	7–10
3	A good range of relevant skills, knowledge and understanding are effectively applied to the topic of the effects of consumer credit and debt on the UK economy. 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 the topic of the effects of consumer credit and debt on the UK economy. Quality of written communication is excellent.	15–18

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

			AVAILABLE MARKS
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	
			[27] 27
			Total 60