

# Sample Assessment Materials

## September 2007

GCE Economics

**Edexcel Advanced Subsidiary GCE in Economics (8EC01)**

First examination 2009

**Edexcel Advanced GCE in Economics (9EC01)**

First examination 2010



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# A Introduction

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These sample assessment materials have been prepared to support the specification.

Their aim is to provide the candidates and centres with a general impression and flavour of the actual question papers and mark schemes in advance of the first operational examinations.



## B Sample question papers

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Unit 1: Competitive Markets - How They Work and Why They Fail .....	7
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Unit 4: The Global Economy .....	71

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### SECTION A

Answer ALL the questions in this section.

You should spend 30 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1. **Statement 1:** The government should increase the national minimum wage to reduce inequality.
- Statement 2:** A significant increase in the national minimum wage above the market equilibrium wage is likely to cause unemployment.

Which of the following best describes the two statements above?

- A Statement 1 is normative and statement 2 is positive.
- B Both statements are normative.
- C Statement 1 is positive and statement 2 is normative.
- D Both statements are positive.

Answer

(1)

Explanation

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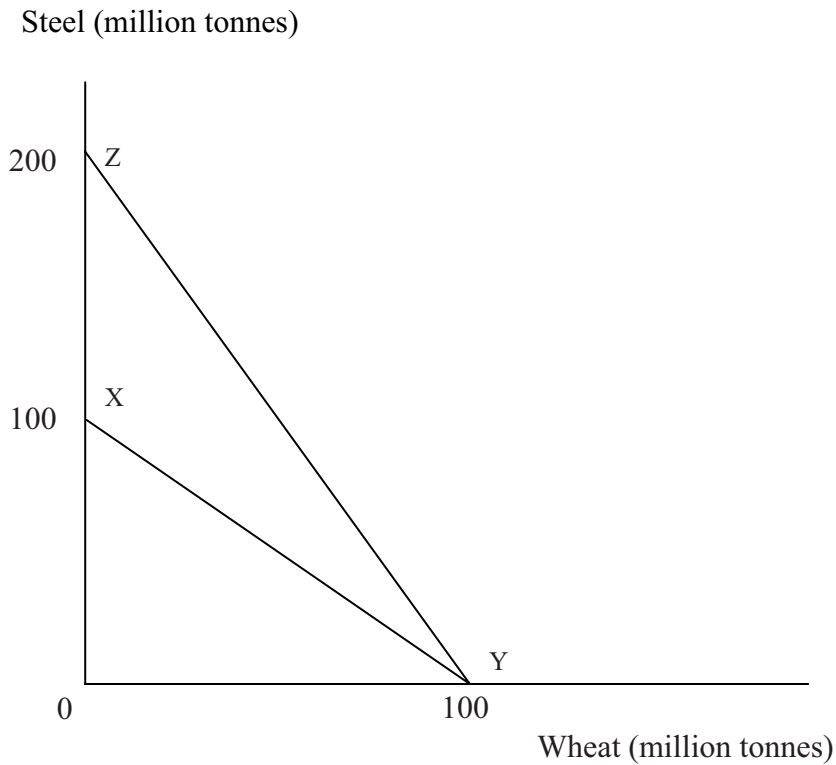
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(3)

(Total 4 marks)

Q1

2.



The diagram refers to an economy producing two commodities, wheat and steel. At first the economy has production possibilities as shown by the line XY. The production possibility frontier then moves to ZY.

Which of the following does this change show?

- A A decrease in production of steel.
- B An increase in the opportunity cost of producing wheat.
- C An increase in the demand for steel.
- D Technological improvements in the wheat industry.

Answer

(1)

Explanation

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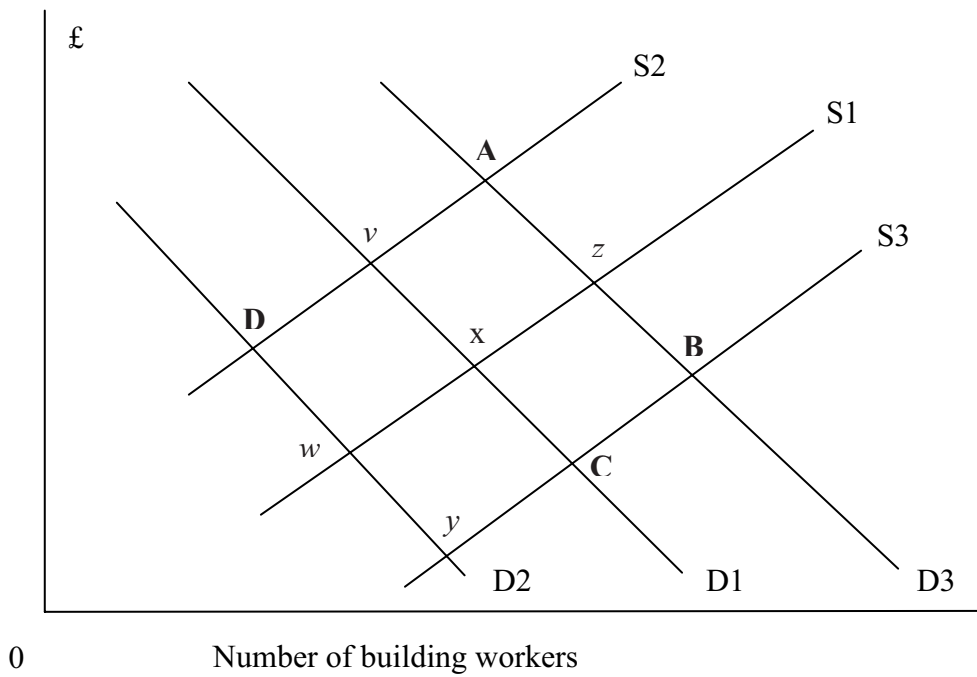
(3)

(Total 4 marks)

Q2

3.

Wage rate of building workers



The diagram shows the labour market for building workers in London where the initial equilibrium position is X. Preparation work for the London Olympic Games has caused a significant increase in the demand for housing, roads and sporting venues. At the same time there has been an increase in immigration of building workers from Eastern Europe.

What is likely to be the new equilibrium position **A**, **B**, **C** or **D**?

Answer

(1)

Explanation

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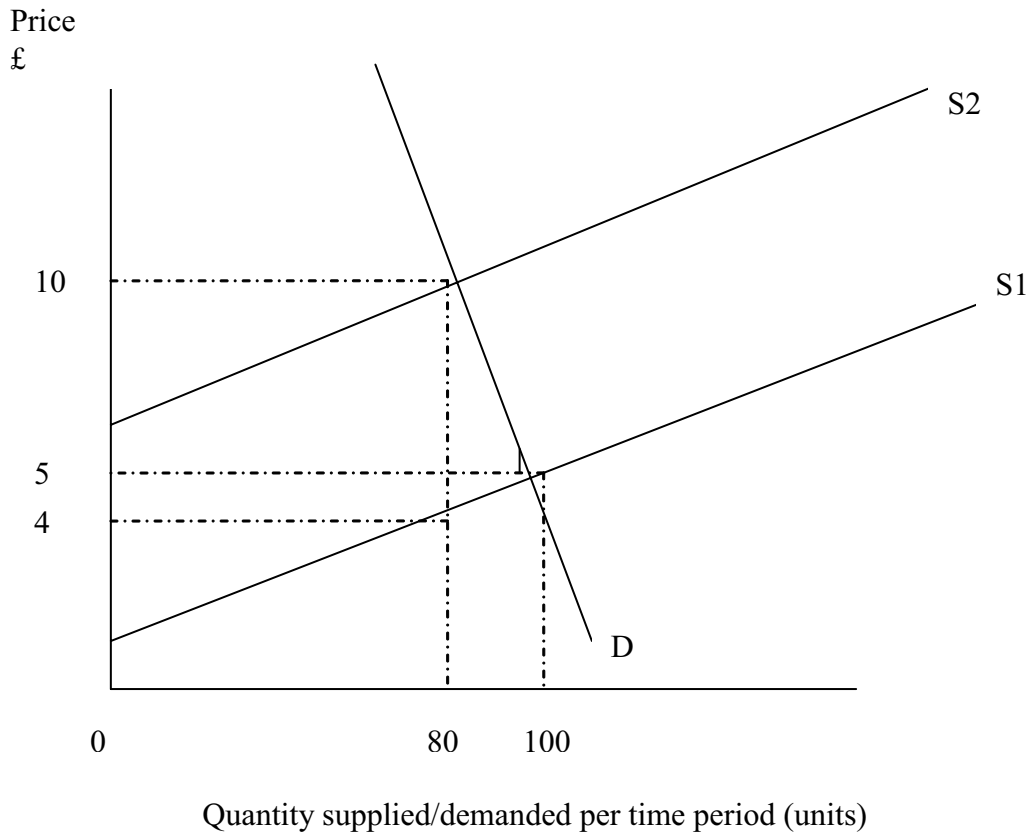
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(3)

(Total 4 marks)

Q3

4.



The diagram shows how a tax imposed on a product causes its supply curve to shift from S1 to S2.

Which of the following best describes the market situation shown?

- A It is a specific tax and its incidence falls mainly on producers not consumers.
- B It is an *ad valorem* tax and its incidence falls mainly on consumers rather than producers.
- C It is a specific tax and its incidence falls mainly on consumers not producers.
- D It is an *ad valorem* tax and its incidence falls mainly on producers not consumers.

Answer

(1)

Explanation

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**(3)**

**Q4**

**(Total 4 marks)**

5. A London health club has 5,000 members. They each pay monthly fees of £80. The health club owner conducts market research and estimates that price elasticity of demand for its membership is  $-0.5$ .

If the owner increases monthly fees by 10%, the change in total revenue is likely to be:

- A + £22,000
- B - £18,000
- C - £22,000
- D + £18,000

Answer

(1)

Explanation

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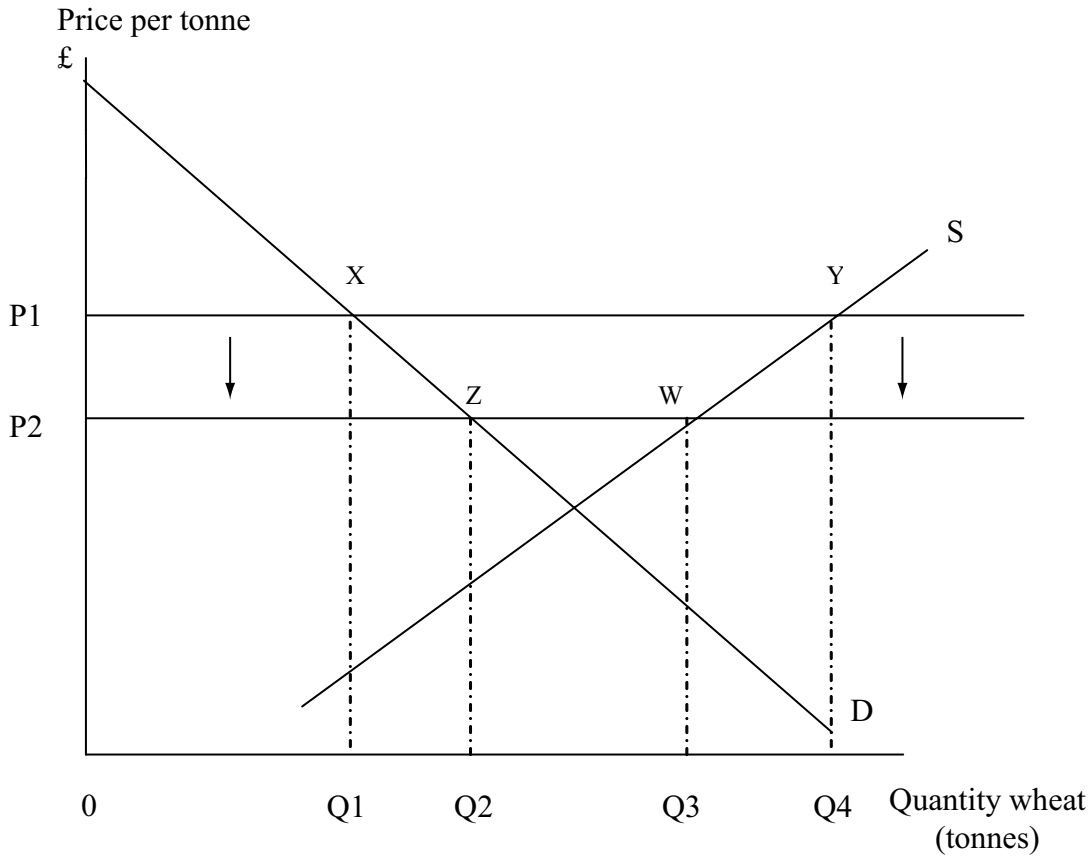
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(3)

(Total 4 marks)

Q5

6.



The diagram shows the European Union wheat market. It operates a minimum price scheme. The government guarantees to purchase any surplus output at the minimum price. At first the minimum price is at  $OP_1$  and the government purchases  $Q_1Q_4$  wheat.

If the minimum price is reduced from  $OP_1$  to  $OP_2$  which of the following is correct?

- A Consumer surplus falls.
- B Excess demand for wheat falls.
- C Government spending on the minimum price scheme for wheat falls.
- D Output of wheat increases.

Answer

(1)

Explanation

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**(3)**

**(Total 4 marks)**

**Q6**

7. National defence is not likely to be provided in a free market economy. This may be because of:
- A the existence of private security firms.
  - B the ability of firms to charge individuals for their consumption.
  - C improved international relations.
  - D the free rider problem.

Answer

(1)

Explanation

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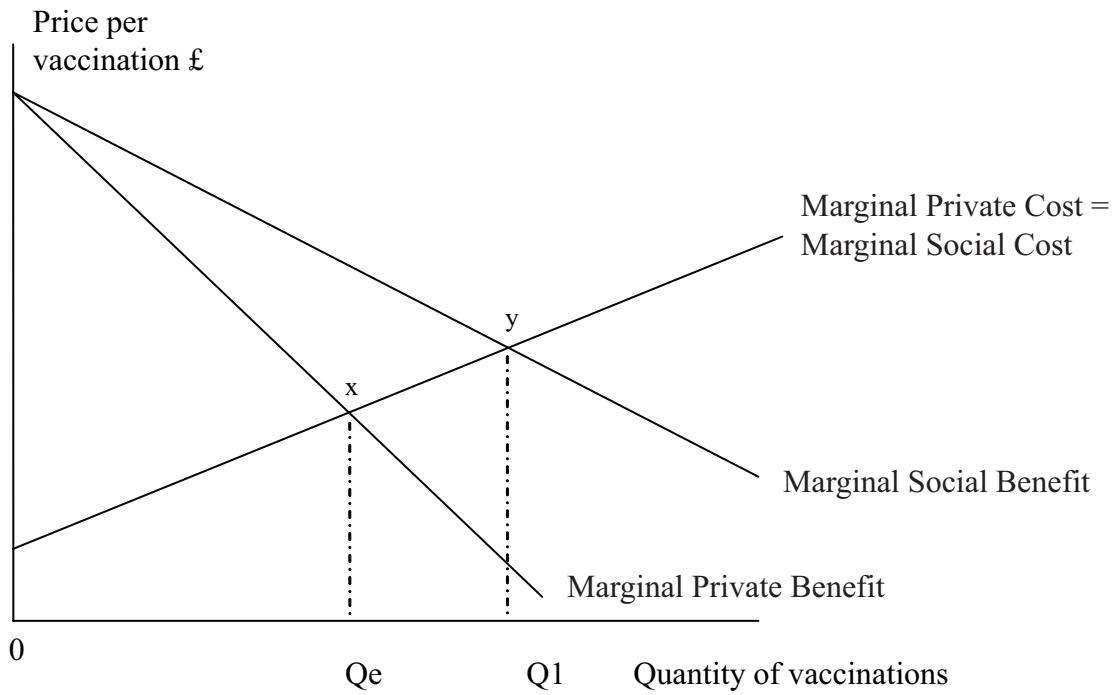
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(3)

**(Total 4 marks)**

Q7

8.



The diagram shows the market for vaccinations. There are no external costs and no government intervention.

Which of the following is correct?

- A The market equilibrium output exceeds the social optimum output.
- B There is an under-consumption of vaccinations.
- C There are no external benefits.
- D At the market equilibrium output, marginal social cost exceeds marginal social benefit.

Answer  (1)

Explanation

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(3)

(Total 4 marks)

TOTAL FOR SECTION A: 32 MARKS

Q8

## SECTION B

Answer EITHER Question 9 or Question 10.  
If you answer Question 9 put a cross in this box .  
You should spend 45 minutes on this section.

## 9. Road traffic and road pricing

Year	Cars, taxis & vans	Buses & coaches	Lorries	Total
2000	429.1	5.2	28.2	462.5
2001	436.5	5.2	28.1	469.8
2002	447.9	5.2	28.3	481.4
2003	451.0	5.4	28.5	484.9
2004	458.9	5.2	29.4	493.5
2005	459.8	5.2	29.0	494.0

**Figure 1: UK Road traffic by vehicle type (billion vehicle kilometres)**

(Source: Department for Transport, National Road Traffic Survey 2006)

**Extract 1**

The cost of driving is going to become much higher as the Government is set to increase motoring taxes over the next decade. Each litre of petrol already includes a fuel tax and value added tax totalling 67 per cent of its price.

The top rate of vehicle excise duty (vehicle tax disc) is to be increased further for high polluting vehicles to encourage drivers to switch to fuel-efficient cars. In addition the Mayor of London intends to increase the daily congestion charge to £25 for such vehicles. These measures appear to be working as the gas-guzzling large '4×4' drive vehicles have suffered a major decline in sales.

Road pricing is set to be applied to Britain's motorways and main roads. A pilot road charging scheme will start in 2010. According to David Miliband, the Environment Secretary, road pricing should reflect the full social cost of journeys and encourage motorists to switch to public transport.

Road space is a scarce resource and motorists should directly pay according to the time of day and amount of congestion caused. It should reduce the number of non-essential journeys and increase the flow of traffic. However, concerns have been raised over the cost of introducing road pricing and its impact on routes which have no charge. Furthermore, low income motorists will be hit the hardest and road pricing may reduce labour mobility.

(Source: adapted from 'Brown set to heed calls for wide-ranging green taxes' by Greg Hurst, *The Times*, 30th October 2006)

- (a) (i) With reference to Figure 1, calculate the percentage increase in distance travelled by cars, taxis and vans between 2000 and 2005.

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**(2)**

- (ii) Assess the significance of **three** possible causes of the increase in distance travelled by cars, taxis and vans.

First cause .....

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Second cause .....

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Third cause .....

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**(8)**

(b) Giving examples, distinguish between the private costs and external costs of motoring.

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**(6)**

\*(c) Examine the case for and against an increase in government subsidies to bus and coach companies. Illustrate your answer with an appropriate subsidy diagram.

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(d) (i) Examine the likely impact of an increase in vehicle excise duty on road traffic growth (*Extract 1, line 4*).

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\*(ii) To what extent are the benefits likely to exceed the costs of a national road pricing scheme?

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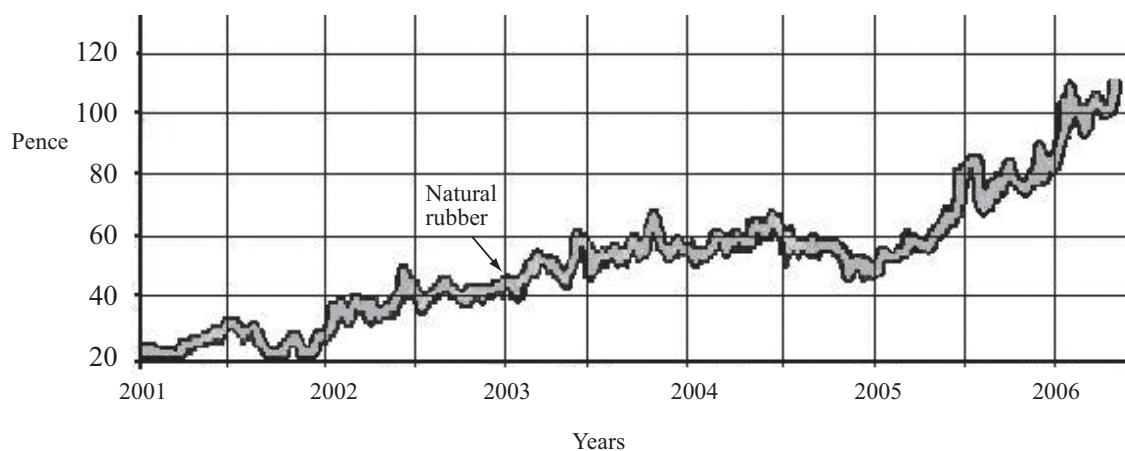
**(Total 48 marks)**

**Q9**

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If you answer Question 10 put a cross in this box .  
You should spend 45 minutes on this section.

### 10. The price of rubber



**Figure 2: Natural rubber price**

#### Extract 2

The price of natural rubber has fluctuated greatly over the past decade. Yesterday it reached £1.18 per kilo, a 22-year high in the market, responding to a combination of demand and supply factors.

China's economy is consuming vast quantities of natural rubber as living standards and the demand for motor vehicles rise. Natural rubber and synthetic rubber are in direct competition with each other: last year's production of natural rubber was 8.7 million tonnes compared to 11.9 million tonnes of synthetic rubber. The cost of producing synthetic rubber has also risen significantly due to the high oil price.

Matters have been made worse by poor weather in Thailand, Malaysia and Indonesia, which between them produce 60% of the world's natural rubber. The shortfall in production of natural rubber is likely to continue in the foreseeable future, says the International Rubber Study Group, which predicts a deficit of 820,000 tonnes by 2010, up from 250,000 tonnes this year. This has led to speculative buying of natural rubber.

Discussions on stabilising natural rubber prices through a buffer stock scheme have taken place. However, little progress has been made since the failure of the International Rubber Organisation seven years ago due to the growth in competition from synthetic rubber. Buffer stock schemes rely on the participation of all major producers as well as sufficient funds to finance surplus production. They also require spare stocks in times of shortage. However, with rising prices there is little incentive to enter into such agreements.

(Source: adapted from 'Rubber price stretched to a 22-year high' by Carl Mortished, *The Times*, 12th May 2006)

- (a) (i) The price of natural rubber 'reached a 22-year high in the market' (*Extract 2, line 2*).

With reference to the data and using a supply and demand diagram, explain why this happened.

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(7)

- (ii) Comment on the likely cross elasticity of demand between synthetic rubber and natural rubber.

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(b) What can you learn from the passage about the price elasticity of supply for natural rubber? Justify your answer.

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(c) Assess the likely impact of the rise in price of natural rubber for consumers of natural rubber such as car manufacturers.

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**(10)**

\*(d)(i) Evaluate **two** likely consequences of fluctuating prices on producers of natural rubber.

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Paper Reference(s)

**6EC02/1**

**Edexcel GCE**

**Economics**

**Advanced Subsidiary**

**Unit 2: Managing the Economy**

**Sample Assessment Material**

**Time: 1 hour 30 minutes**

Examiner's use only

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Team Leader's use only

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Question Number	Leave Blank
1	
2	
<b>Total</b>	

**Materials required for examination**

Nil

**Items included with question papers**

Nil

**Instructions to Candidates**

In the boxes above, write your centre number, candidate number, your surname, initials and signature. Check that you have the correct question paper. Write your answers in the spaces provided in this question paper. Answer EITHER Question 1 OR Question 2. Do not use pencil. Use blue or black ink. Indicate which question you are answering by marking the box (☒). If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (⊗).

**Information for Candidates**

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2). There are 2 questions in this question paper. The total mark for this paper is 80. There are 16 pages in this question paper. Any blank pages are indicated.

**Advice to Candidates**

Quality of written communication will be taken into account in the marking of your answers in Question 1 c(ii) and 1d and in Question 2 b(i) and 2d. These questions are indicated with an asterisk. Quality of written communication includes clarity of expression, the structure and presentation of ideas and grammar, punctuation and spelling.

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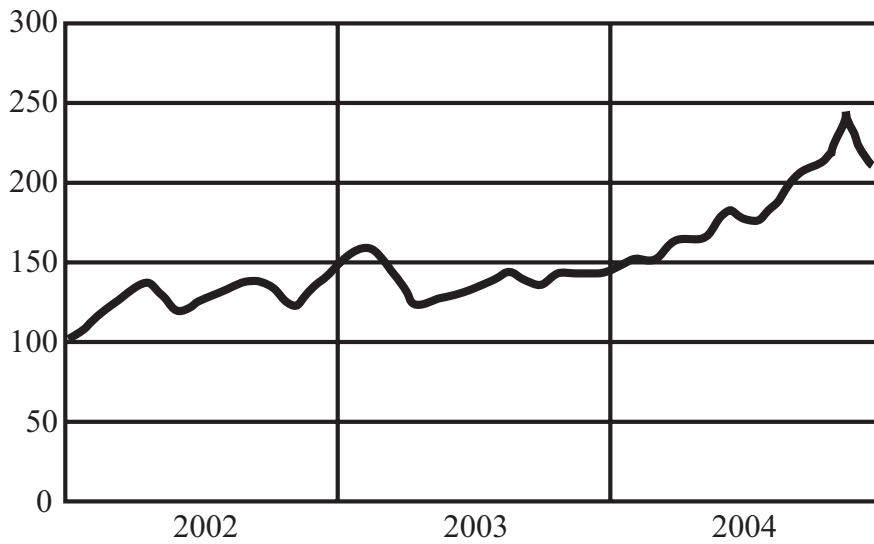
advancing learning, changing lives

Answer EITHER Question 1 OR Question 2.

If you answer Question 1 put a cross in this box

**Question 1**

**Changes in world oil prices**



**Figure 1: Index of dollar oil prices Jan 2002=100**

	<b>GDP per capita Purchasing power parities, US\$</b>	<b>Life expectancy at birth (years)</b>	<b>Human Development Index</b>
<b>UK</b>	<b>30821</b>	<b>78.5</b>	<b>.940</b>
<b>China</b>	<b>5896</b>	<b>71.9</b>	<b>.768</b>
<b>Zambia</b>	<b>943</b>	<b>37.7</b>	<b>.407</b>

**Figure 2: GDP per head (standardised) and other measures of economic performance, 2004 values**

Source: United Nations Human Development Report 2006

## **Extract 1**

### **Record oil prices cut pace of UK growth**

The UK's economic growth has slowed again, under the weight of record oil prices and weakening manufacturing. The Office for National Statistics said the economy expanded by just 0.4 per cent in the third quarter of 2004, as industry suddenly diverted from its apparent recent recovery.

Continued rises in the costs of oil, energy and metals will ultimately weaken markets as well as eat into profit margins. With other cost pressures rising we would expect to see the inflation rate, as measured by the Consumer Price Index (CPI), moving above the 2 per cent target.

Source: *www.money.telegraph.co.uk*

## **Extract 2**

### **Stability and productivity**

In any other decade, a 100 per cent increase in oil prices, a 50 per cent rise in industrial material prices and a 70 per cent rise in metal prices would have led to inflation and macroeconomic instability. But CPI inflation is just 1.25 per cent.

To succeed in the long term in the global economy the UK must close the productivity gap with its trading partners. At present, compared to the UK, productivity is more than 20 per cent higher in France, Germany and the USA. We should build on our strengths – our stability, scientific genius and world-class universities. Further, we must invest in education and skills: we have 30 per cent unskilled employees, a higher proportion than any major European Union country.

Source: adapted from *The Pre-Budget Report*, 2 December 2004

(a) Refer to Figure 1 and Extract 1.

(i) What is meant by the phrase 'index of dollar oil prices Jan 2002 = 100'?

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**(4)**

(ii) Using an appropriate diagram, explain the likely effect of the change in oil prices on the level of aggregate supply and the price level in the UK.

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(b) Using the data in Figure 2:

(i) Outline **one** advantage and **one** disadvantage of using GDP figures to measure standards of living.

Advantage .....

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Disadvantage .....

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**(8)**

(ii) GDP measures economic development. Examine the relative merits of **two other** indicators as measures of economic development.

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(c) Referring to Extract 2:

(i) Explain what is meant by the term ‘productivity gap’ (*line 4*).

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\*(ii) Differences in productivity cause different growth rates in economies.

Examine **two other** likely causes of different economic growth rates in economies.

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\*(d) An economy has significant rises in its input costs. Examine the likely effectiveness of supply side policies for the control of inflation in such an economy.

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Q1

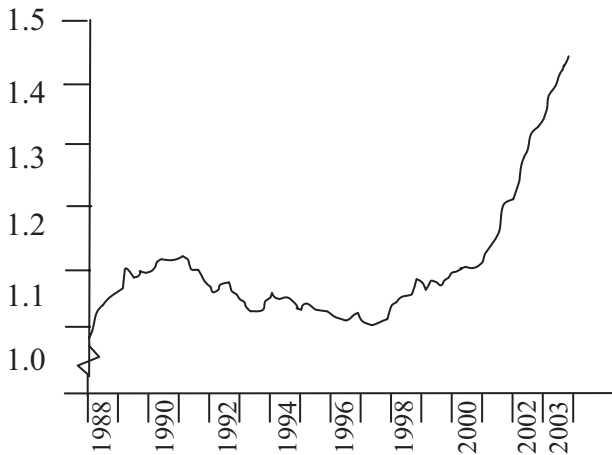
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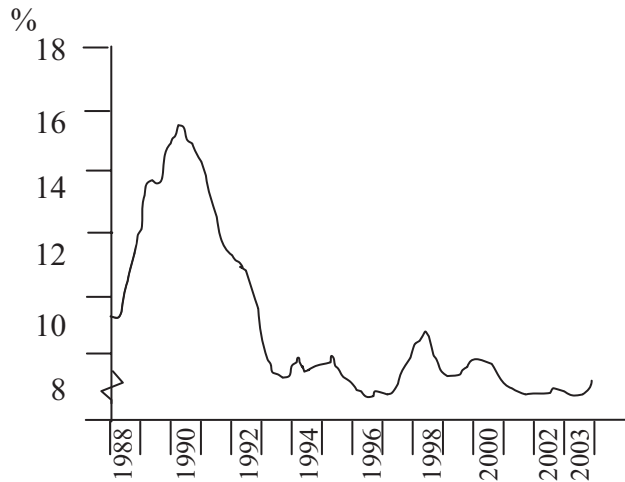
If you answer Question 2 put a cross in this box

## Question 2

### Demand management



**Figure 1** Average UK household debt as a multiple of average income (after tax has been deducted)



**Figure 2** Average UK household interest payments as a percentage of average income (after tax has been deducted)

Source: [www.statistics.gov.uk](http://www.statistics.gov.uk)

### Extract 1 UK interest rates must rise

The Bank of England's Monetary Policy Committee (MPC) decided against an immediate interest rate rise because of 'tentative signs of a slowdown in the housing market' and some indications of slowing consumer spending. The evidence is far from convincing, given the record levels of property transactions and evidence that consumers seem to have lost none of their appetite for debt. Nothing the MPC has yet done has had any noticeable dampening effect on the economy.

Source: adapted from *The Economist* 31 July 2004

### Extract 2 Fragile dollar renews concern over export sales

Mervyn King, the Governor of the Bank of England, identified the strong pound as the most important factor affecting export performance over the past seven years. Britain's share of the world export market has fallen steadily, as trade between the growing Asian economies has increased more rapidly than with the rest of the world. That, Mr King implied, was not a bad thing: it reflects the greater growth and success in the rest of the world and it means a larger income out there to buy our exports, which could lead to export-led growth in the future.

Source: adapted from the *Financial Times* 29 November 2004

(a) Refer to Figures 1 and 2:

(i) Using Figure 1, calculate the percentage change in the value of household debt relative to income between the start of 2000 and the end of 2003.

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**(4)**

(ii) Explain the contrasting trends of household debt and interest payments between the start of 2000 and the end of 2003.

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**(6)**

(iii) Assess the likely impact on UK income distribution if interest rates were raised.

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\***(b)** (i) Assess the likely impact of ‘a slowdown in the housing market’ (*Extract 1, line 2*) on aggregate demand.

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(ii) The Bank of England’s Monetary Policy Committee uses house prices as a factor when it decides the interest rate.

Explain **two other** factors it might use:

First factor .....

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Second factor .....

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**(8)**

(c) (i) Explain what is meant by ‘export-led growth’ (*Extract 2, line 6*).

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**(4)**

(ii) Contrast the impact of export-led growth on the UK balance of payments with an increase in consumer spending.

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\*(d) Using the concept of the multiplier, evaluate the likely effects on the UK price level and equilibrium real output of rising interest rates.

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**(30)**

**(Total 80 marks)**

**Q2**

**TOTAL FOR PAPER: 80 MARKS**

**END**

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Centre No.						Paper Reference					Surname	Initial(s)		
Candidate No.						<b>6</b>	<b>E</b>	<b>C</b>	<b>0</b>	<b>3</b>	<b>/</b>	<b>1</b>	Signature	

Paper Reference(s)

# 6EC03/1

# Edexcel GCE

## Economics

### Advanced

## Unit 3: Business Economics and Economic Efficiency

Sample Assessment Material

Time: 1 hour 30 minutes

Examiner's use only

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Team Leader's use only

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Question Number	Leave Blank
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8	
9	
10	
<b>Total</b>	

**Materials required for examination**  
Nil

**Items included with question papers**  
Nil

### Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initials and signature. Check that you have the correct question paper. Answer ALL the questions in Section A and EITHER Question 9 or Question 10 in Section B. Write your answers in the spaces provided in this question paper. Do not use pencil. Use blue or black ink. Indicate which question you are answering by marking the box (⊗). If you change your mind, put a line through the box (⊗) and then indicate your new question with a cross (⊗).

### Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2). There are 10 questions in this question paper. The total mark for this paper is 72: 32 marks for Section A and 40 marks for Section B. There are 24 pages in this question paper. Any blank pages are indicated.

### Advice to Candidates

Quality of written communication will be taken into account in the marking of your answers in Section B, Question 9(c) and (d) or Question 10(b) and (d). These questions are indicated with an asterisk. Quality of written communication includes clarity of expression, the structure and presentation of ideas and grammar, punctuation and spelling.

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**Turn over**

## SECTION A

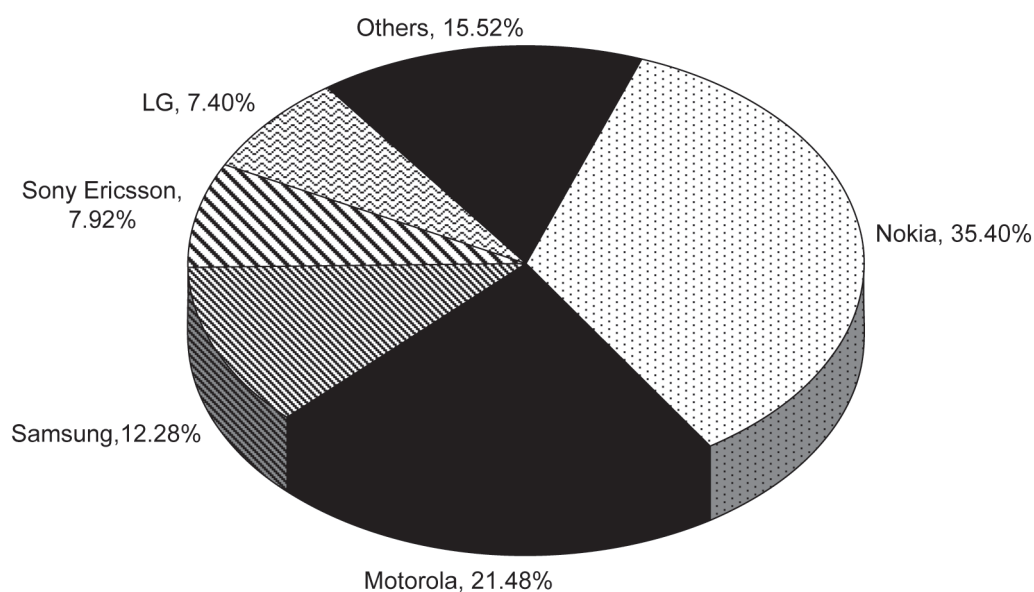
You should spend 35 minutes on this section.

Use the data to support your answer where relevant.

You may annotate or include diagrams in your answer.

1. The following chart shows percentage market shares in the mobile phone market in 2006.

**Mobile Phone Market Share 4th Quarter 2006**



(Source: [www.mobileisgood.com/statistics.html](http://www.mobileisgood.com/statistics.html))

Which of the following is true for this market?

- A The market share is nearly perfectly competitive because each firm has nearly equal market share
- B The market is characterised by monopolistic competition because each firm produces mobile phones with different characteristics
- C The market has a high concentration
- D The market is perfectly contestable
- E Tacit collusion is not likely in this industry

Answer

(1)

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Explanation

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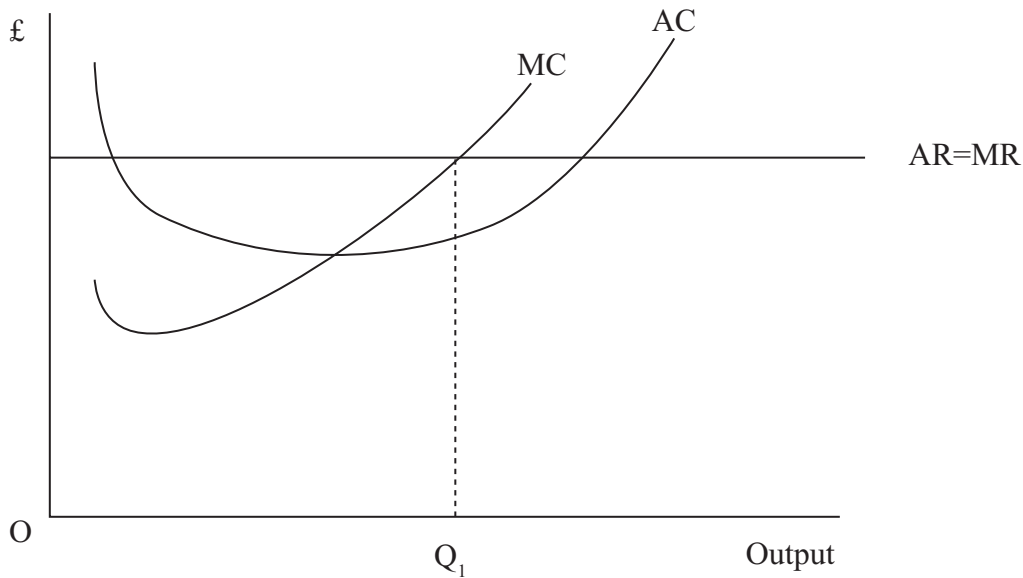
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**(3)**

**Q1**

**(Total 4 marks)**

2. The diagram below shows a firm producing at output  $Q_1$ .



Which of the following applies to such a firm?

- | Market Structure           | Profit      |
|----------------------------|-------------|
| A Perfect Competition      | Normal      |
| B Perfect Competition      | Supernormal |
| C Monopoly                 | Normal      |
| D Monopolistic Competition | Normal      |
| E Monopolistic Competition | Supernormal |

Answer

(1)

Explanation

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(3)

(Total 4 marks)

Q2

3. A firm producing hand-built sports cars has the following costs:

Total Output of Cars	Total Costs
100	£800 000
101	£806 000
102	£813 000

The above data illustrates that:

- A marginal costs are rising and are above average costs
- B average costs are equal to marginal cost at the minimum of marginal cost
- C marginal costs are rising but are below average costs
- D marginal costs are falling over the range of output shown
- E average costs are rising over the range of output shown.

Answer

(1)

Explanation

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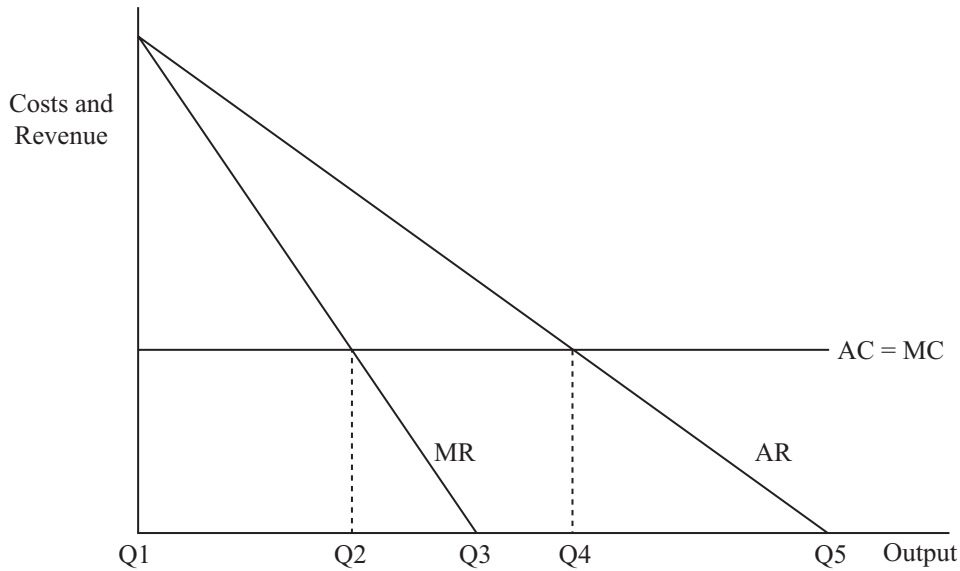
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(3)

(Total 4 marks)

Q3

4.



The above diagram shows a competitive industry with constant returns to scale operating at output level Q4. If there were no change in costs and the firms in this industry combined to act as a profit maximising monopoly, what would happen to the output? Would it:

- A remain at Q4
- B rise to Q5
- C fall to Q3
- D fall to Q2
- E fall to Q1.

Answer

(1)

Explanation

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(3)

Q4

(Total 4 marks)

5. In which of the following is the practice of price discrimination **least** likely to be possible?

- A Sales of milk in supermarkets
- B Airline travel
- C Railway travel
- D Telephone services
- E Cinemas

Answer

**(1)**

Explanation

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**(3)**

**(Total 4 marks)**

**Q5**

6. In July 2006, the European Commission fined Microsoft €280m for anti-competitive behaviour.

What reasons might the Commission have had?

- A The Commission wished to tax the excess profits made by Microsoft
- B Microsoft was planning an aggressive marketing campaign to coincide with the launch of its new operating system in January 2007
- C Microsoft was using unethical sources to manufacture its software
- D The Commission wanted Microsoft to achieve productive efficiency
- E Microsoft was engaged in restrictive practices.

Answer

**(1)**

Explanation

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**(3)**

**(Total 4 marks)**

**Q6**



7. A firm in long run equilibrium in monopolistic competition will:
- A make normal profit only and be allocatively efficient
  - B make normal profit only and be allocatively inefficient
  - C make supernormal profit and be allocatively efficient
  - D make supernormal profit and be allocatively inefficient
  - E make supernormal profit and be technically inefficient.

Answer

(1)

Explanation

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(3)

**(Total 4 marks)**

Q7

8. The supply of water to domestic consumers in a major city has:

- A high marginal costs
- B low barriers to entry
- C high sunk costs
- D insignificant economies of scale
- E low market concentration ratios.

Answer

(1)

Explanation

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(3)

(Total 4 marks)

Q8

**TOTAL FOR SECTION A: 32 MARKS**

**SECTION B**

**Answer EITHER Question 9 OR Question 10.**

**If you answer Question 9 put a cross in this box .**

**You are advised to spend 50 minutes on this section.**

**Use the data to support your answer where relevant.**

**You may annotate or include diagrams in your answer.**

**9. Ryanair bids for Aer Lingus**

Any proposed takeover of Aer Lingus by Ryanair is likely to require the approval of the European Commission. Since 1990 the European Commission has had control over what is termed “concentrations having a Community dimension” and its powers currently arise under the European Community Merger Regulation which came into force in May 2004.

Where a merger or a takeover above a certain size is proposed, it is the Commission, rather than any relevant national authority, that may have the sole decision making responsibility. Since 1990 the Commission has received over 3,200 notifications of mergers and takeovers and blocked only 19. In particular, the Commission has appeared to look favourably upon airlines coming together and has stressed the benefits to passengers of increased efficiencies. Recent decisions relating to Air France-KLM and Lufthansa-Swiss reflect this view.

However, this should not be seen as leading to an open door for all airline mergers and takeovers. Speaking at the University of Leiden in April the commissioner stated that “we cannot ignore the negative effects that airline mergers and takeovers sometimes have on individual markets”.

So if one considers the Dublin to London route, Ryanair is likely to point out that competition already exists in the form of BMI and City Jet, while there is nothing to stop a carrier such as British Airways entering the marketplace.

Ryanair will no doubt further argue that as the market in airline transportation is growing so rapidly in Europe and as barriers to entry to the market are declining, competition is unlikely to be obstructed to any great extent. Unless it can be shown that the takeover will “significantly limit effective competition” it is likely to be approved.

In reality, if the Commission has concerns over certain elements of the takeover, it is likely to seek modification of the deal which in the present case might relate to maintaining certain routes or ensuring particular services.

(Source: adapted from *The Irish Times*, “O’Leary may get EU approval”, 6 October 2006)

(a) What form of integration would result from a successful bid for Aer Lingus by Ryanair?

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**(4)**

(b) Discuss **two** benefits Ryanair might want to exploit from a takeover of Aer Lingus.

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\*(d) Assess whether integration between airlines, such as Ryanair and Aer Lingus, is in the interests of airline passengers?

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If you answer Question 10 put a cross in this box .

## 10. Unwelcome advances

Although most bits of British business fall to foreigners, banking remains stubbornly British. Nine of the country's top ten banks are British-owned. The exception, Abbey National, was bought in 2004 by Spain's Santander Bank only after years of mismanagement. But shareholders and foreign investors are ever-hopeful that British domination of the country's banks will soon come to an end.

On 8th December, shares in Barclays Bank surged to record levels after analysts at Morgan Stanley said they thought Bank of America was interested in buying it. On 11 December, Prudential, a British life insurer, said it had rejected a Citigroup bid for its internet-banking business, Egg. In July, Cr dit Agricole said it had looked at buying Alliance & Leicester, a former building society.

The arguments for buying British banks look compelling. Britain's stable regulatory regime welcomes foreign ownership. For an American buyer, already constrained at home by rules preventing banks from making acquisitions if they have more than a tenth of national deposits, the common language and similar legal systems make Britain a good launch pad for expansions into Europe.

Santander's purchase of Britain's Abbey National also changed the landscape. Before that acquisition most banks had tended to focus on mergers in the same markets, where costs could be cut through closing branches. Santander, however, promised to trim almost a fifth of Abbey's costs by closing down its computer systems and moving customers onto its own network. The cost savings have helped Santander to offer improved services to customers, which has led to increased market share.

Buying British also gives a foreigner a door into other markets. Standard Chartered, for instance, makes most of its money in Asia. Even Barclays, as British a name as any, now gets about half its income from overseas. But there are also real stumbling blocks. Only optimists believe that a big deal now could duplicate Santander's cost savings at Abbey, which was running antiquated computer systems. "It is hard to argue that British banking is in such a sorry state that others can come in and do it better," says David Williams, of Morgan Stanley.

"A second obstacle is that most British banks are so large that few firms in the world are big enough to buy them," says Alex Potter, an analyst at stockbroker Collins Stewart. HSBC and Royal Bank of Scotland have market values of £106 billion and £63 billion respectively, which puts them out of reach for all but the largest (or most determined) buyers. But the biggest obstacle is the fact that they are all doing fairly well, so no British bank is looking for a buyer.

(Source: *The Economist*, "Unwelcome advances", 15 December 2006)

(a) What market structure does the UK banking sector seem to operate in?

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\*(b) To what extent is the UK banking sector likely to experience collusion?

Refer to simple game theory to support your answer.

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(c) Santander Bank took over Abbey National.

Discuss **one pricing** strategy and **one non-pricing** strategy that Santander Bank may have then used to attract more customers.

Pricing strategy .....

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Non-pricing strategy .....

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**(8)**



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(16)

Q10

(Total 40 marks)

**TOTAL FOR SECTION B: 40 MARKS**

**TOTAL FOR PAPER: 72 MARKS**

**END**







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**(30)**

**Q1**

**(Total 50 marks)**

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If you answer Question 2 put a cross in this box ☒.

\*2. (a) The value of the US dollar has been declining steadily against other currencies since 2002. Examine the possible causes of this decline.

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**(Total 50 marks)**

**Q2**

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If you answer Question 3 put a cross in this box ☒.

\*3. (a) Assess the reasons why countries in Asia have been more successful in attracting foreign direct investment than many African countries.

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\*(b) Evaluate the economic effects of an increase in foreign direct investment on a country of your choice.

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A large rectangular area containing numerous horizontal dotted lines, intended for writing answers. The lines are spaced evenly and fill most of the page's central area.

**(30)**

**(Total 50 marks)**

**Q3**

Two small empty rectangular boxes, likely for marking or recording scores.

**TOTAL FOR SECTION A: 50 MARKS**



**SECTION B**

**Answer ONE question from this section.**

**You should spend approximately 60 minutes on this section.**

**If you answer Question 4 put a cross in this box .**

**4.**

**Extract 1****The End of Textile Quotas****Textiles**

The World Trade Organisation (WTO) ended its Multi-Fibre Agreement (MFA) on 31 December 2004. The MFA was established in the 1970s to give some protection to the textile industries of industrialised countries facing competition from countries with lower manufacturing costs, such as Bangladesh. As part of the MFA, quotas were introduced to prevent a surge of imports which threatened to cause serious damage to a country's own producers. Since 1995, the WTO has been gradually phasing out quotas.

The removal of quotas will not only harm industrial countries but also poor and middle income countries such as Sri Lanka, Bangladesh, Indonesia and Morocco. The worry is that, having no comparative advantage beyond abundant cheap labour, they will lose market share to countries such as China and India which have vertically integrated supply chains.

Christian Aid estimates that Bangladesh alone will lose a million jobs and that a total of 30 million jobs will be lost to China's allegedly encroaching global monopoly. It is also argued that China is keeping its currency at an artificially low level and giving state subsidies. However, supporters of the ending of the MFA claim it will mean increased efficiency and lower costs for Western consumers. Supporters also argue that the move will see more jobs created in India and China.

Producers in rich countries are also alarmed at the ending of the MFA. In the USA, textile manufacturers are pressing for protectionism, saying that China will 'destroy' the American textile industry. Trade unions also argued that 350,000 jobs have been lost in America's textile sector between 2001 and 2004 and that, if nothing is done, many of the remaining 695,000 will likewise be on a fast boat to China with the abolition of quotas. In the EU the industry employed 2.7 million people in 2003 and had a turnover of €225 billion. But the EU imports of Chinese textiles and clothing almost doubled between 2001 and 2003 and employment in these industries is falling rapidly. However, in the UK, members of the 195,000 textiles workforce are finding jobs in companies at the top end of the market where there are larger profit margins.

(Source: adapted from *The Economist*, 13 November 2004)

## Extract 2

### Tariffs on Textiles

Even after quotas are phased out, exports of these goods from developing to industrialised nations will face tariff levels that are considerably higher than for other manufactured goods, as well as sharp tariff ‘peaks’ for certain goods. The average tax imposed by rich countries on textiles is 12 per cent, compared with 3.8 per cent for all manufactured goods; but these tariffs reach up to a remarkable 30 or 40 per cent on particular goods. S Men’s synthetic shirts face a huge 32 per cent tariff, for example, at US customs.

The disproportionate tariffs on these goods are evidenced by the fact that, while accounting for only 6.7 per cent of the value of US imports, shoes and clothes account for \$8.7 billion tariff revenue - almost half of all tariff revenue collected. This can be likened to a system of regressive taxation.

(Source: adapted from *Stitched Up*, Oxfam briefing paper, April 2004)

(a) Outline the role of the World Trade Organisation.

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(b) With reference to Extract 1, explain two benefits of quotas to industrialised countries with their own textile industries.

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(c) With reference to Extract 1, assess **two** reasons which might justify protectionist measures against China.

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(e) Discuss the factors which might determine the international competitiveness of a country’s textile industry.

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**(Total 50 marks)**

**Q4**

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If you answer Question 5 put a cross in this box ☒.

5.

### Extract 1

#### **Brown's Marshall Plan for World Poor**

The original Marshall Plan was the American scheme to support European reconstruction after the Second World War. Now Gordon Brown has launched Britain's campaign for a Marshall Plan for Africa in unveiling the government's three-pronged scheme for greater debt relief, more generous aid and better trade access.

'While 2004 was a year which ended in the horror of a natural disaster, 2005 is a year that can start with the hope of human progress,' Mr Brown said in a lecture in Edinburgh. '2005 is a year of challenge but also a year of opportunity when - from the foundation of hope - we can, I believe, see real change.'

Mr Brown's launch of the year-long campaign coincided with a similar push from Tony Blair to take advantage of public sympathy following the Asian tsunami of December 2004 to support a wider mission to tackle global poverty. At his monthly Downing Street press conference, the Prime Minister warned that Africa suffers 'the equivalent of a man made, preventable tsunami every week'. Mr Blair repeatedly contrasted the 'force of nature' which devastated communities around the Indian Ocean with the 'failure of man' to rescue Africa.

These two appeals for radical action to end world poverty will face serious resistance and other proposals from Britain's main, partners. They mark the start of the UK year-long presidency of the G8 group of industrial states and, from July, of the EU.

Britain's plan contains three proposals. First, that debts owed by the world's poorest countries to institutions such as the World Bank and the International Monetary Fund should be written off. Secondly, that aid should be doubled to \$100bn per year. Thirdly, that trade reforms should be introduced to help poor countries build up their export capacity while rich countries dismantle 'their protectionist barriers'.

Without immediate action, Mr Brown said, the world would be breaking the pledges made at the UN to halve poverty, provide universal primary education and cut infant mortality by two-thirds, all by 2015. Almost every world leader, state and international body had signed up to the millennium development goals.

'But already, so close to the start of our journey to 2015, it is clear that our destination risks becoming out of reach.' Mr Brown said, however, that the tsunami had emboldened global leaders and in 2005 there was 'a once in a generation opportunity to deliver for our times a modern Marshall Plan for the developing world - a new deal between the richest and the poorest countries'.

(Source: adapted from Larry Elliott and Michael White, *The Guardian* Newspaper, London, 7 January 2005)



(a) Explain the difference between absolute and relative poverty.

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(b) Explain **two** problems that individual countries might face following trade liberalisation.

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(c) Evaluate two possible reasons why sub-Saharan Africa has experienced slower economic growth than most other developing regions.

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(e) Discuss the economic effects on both developed and developing countries of aid being 'doubled to \$100bn a year' (*Extract 1, line 21*).

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**(Total 50 marks)**

**Q5**

**TOTAL FOR SECTION B: 50 MARKS**  
**TOTAL FOR PAPER: 100 MARKS**

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## C Sample mark schemes

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General marking guidance .....	105
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Unit 2: Managing the Economy .....	129
Unit 3: Business Economics and Economic Efficiency .....	139
Unit 4: The Global Economy .....	151



## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Mark schemes will indicate within the table where, and which strands of QWC, are being assessed. The strands are as follows:
  - i) ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear
  - ii) select and use a form and style of writing appropriate to purpose and to complex subject matter
  - iii) organise information clearly and coherently, using specialist vocabulary when appropriate

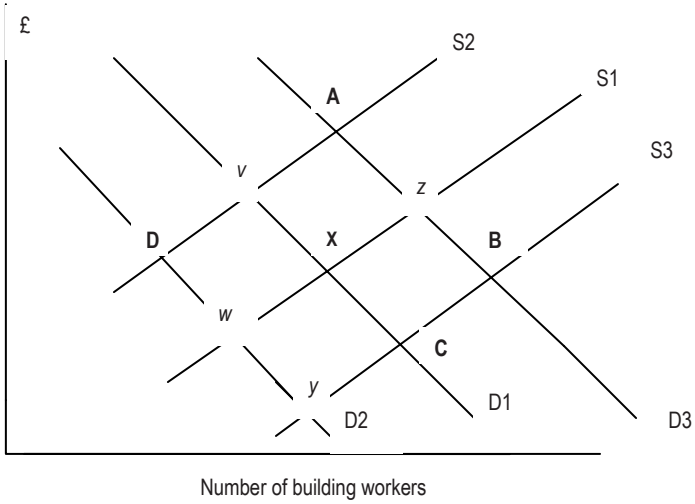


## Unit 1: Competitive Markets - How They Work and Why They Fail

### Section A

Question Number	Question	
1.	<p><b>Statement 1:</b> The government should increase the national minimum wage to reduce inequality.</p> <p><b>Statement 2:</b> A significant increase in the national minimum wage above the market equilibrium wage is likely to cause unemployment.</p> <p>Which of the following best describes the two statements above? A, B, C or D</p>	
	<b>Answer</b>	<b>Mark</b>
	<p><b>A</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• A normative statement is a value judgement whereas a positive statement is an assertion of a fact (1 mark).</li> <li>• The first statement is normative since it includes the word 'should' (1 mark).</li> <li>• The second statement is positive since it can be tested as true or false by investigating the evidence (1 mark).</li> </ul> <p>Also award:</p> <ul style="list-style-type: none"> <li>➤ A diagram depicting the NMW above the free market wage (1 mark).</li> </ul>	<p><b>1</b></p> <p><b>3</b></p> <p><b>(4)</b></p>

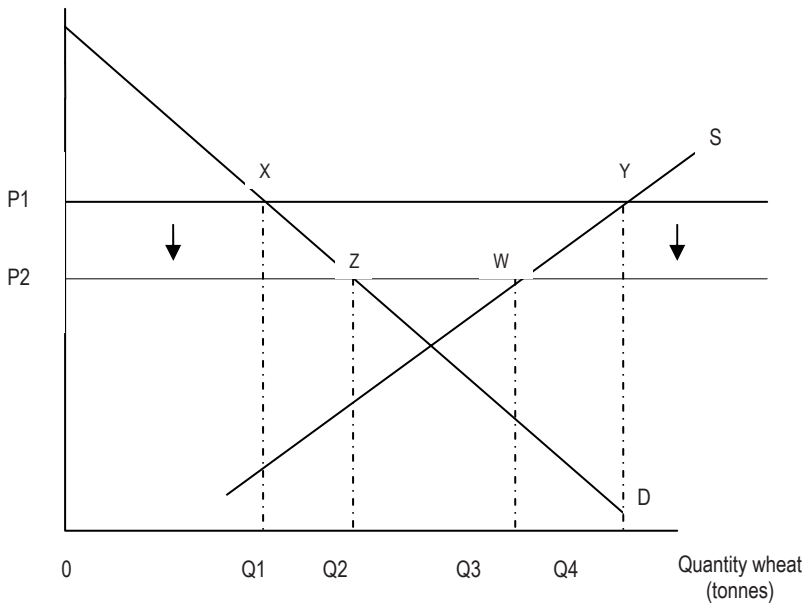
Question Number	Question	
2.	<p data-bbox="437 331 612 360">Steel (Million tonnes)</p> <p data-bbox="411 936 1241 1055">The diagram refers to an economy producing two commodities, wheat and steel. At first the economy has production possibilities as shown by the line XY. The production possibility frontier then moves to ZY.</p> <p data-bbox="411 1099 1134 1128">Which of the following does this change show? A, B, C or D.</p>	
	<b>Answer</b>	<b>Mark</b>
	<p data-bbox="411 1196 432 1225"><b>B</b></p> <p data-bbox="411 1256 576 1285"><b>Bullet points</b></p> <ul data-bbox="459 1292 1246 1570" style="list-style-type: none"> <li data-bbox="459 1292 1246 1442">• Definition of production possibility frontier (eg the maximum output combinations of two goods an economy can achieve when all its resources are fully / efficiently employed) or definition of opportunity cost (eg the value of the next best alternative foregone) (1 mark).</li> <li data-bbox="459 1449 1246 1509">• Original opportunity cost of producing (1 wheat costs 1 steel) (1 mark).</li> <li data-bbox="459 1516 1246 1570">• New opportunity cost of producing wheat increases (1 wheat costs 2 steel) (1 mark).</li> </ul>	<p data-bbox="1273 1196 1294 1225"><b>1</b></p> <p data-bbox="1273 1317 1294 1346"><b>3</b></p> <p data-bbox="1273 1532 1310 1561"><b>(4)</b></p>

Question Number	Question	
3.	<p data-bbox="411 320 775 353">Wage rate of building workers</p>  <p data-bbox="411 981 1246 1167">The diagram shows the labour market for building workers in London where the initial equilibrium position is X. Preparation work for the London Olympic Games has caused a significant increase in the demand for housing, roads and sporting venues. At the same time there has been an increase in immigration of building workers from Eastern Europe.</p> <p data-bbox="411 1200 1158 1234">What is likely to be the new equilibrium position? A, B, C or D</p>	
	<b>Answer</b>	<b>Mark</b>
	<p data-bbox="411 1301 432 1328"><b>B</b></p> <p data-bbox="411 1357 576 1391"><b>Bullet points</b></p> <ul data-bbox="459 1395 1225 1641" style="list-style-type: none"> <li data-bbox="459 1395 1225 1485">• The increase in immigration of building workers from Eastern Europe has caused an increase in supply from S1 to S3 (1 mark).</li> <li data-bbox="459 1489 1225 1579">• The increase in demand for housing, roads and sporting venues has caused an increase in demand for building workers from D1 to D3 (1 mark).</li> <li data-bbox="459 1583 1225 1641">• The demand for building workers are a ‘derived demand’ from the demand for the final product it makes (1 mark).</li> </ul>	<p data-bbox="1273 1301 1294 1328"><b>1</b></p> <p data-bbox="1273 1424 1294 1451"><b>3</b></p> <p data-bbox="1273 1608 1315 1635"><b>(4)</b></p>

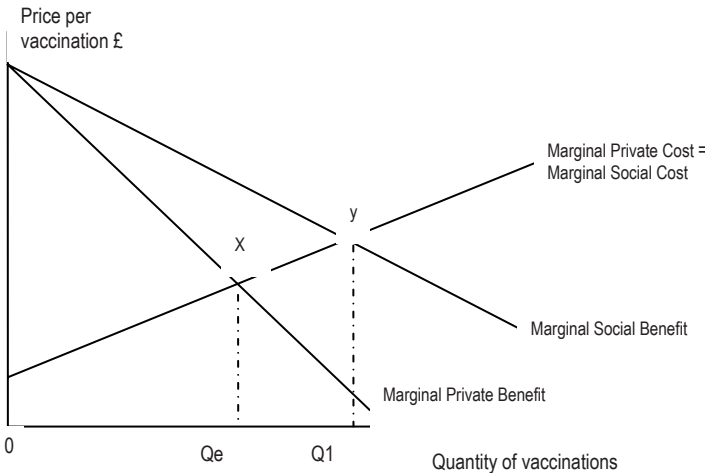
Question Number	Question	
4.	<p>The diagram shows how a tax imposed on a product causes its supply curve to shift from S1 to S2.</p> <p>Which of the following best describes the market situation shown?</p> <p>A, B, C or D</p>	
	<b>Answer</b>	<b>Mark</b>
	<p><b>C</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• A specific tax is a flat rate tax per unit of good (1 mark).</li> <li>• Consumer tax per unit is £5, shown by the increase in market price (1 mark).</li> <li>• Producer tax per unit is £1 (1 mark).</li> </ul> <p>Also award:</p> <ul style="list-style-type: none"> <li>➤ Consumers pay more tax than producers since demand is price inelastic (1 mark).</li> <li>➤ Annotation of diagram showing consumer and producer tax areas (1 mark).</li> <li>➤ A specific tax causes a parallel shift of the supply curve from S1 to S2 (1 mark).</li> </ul>	<p><b>1</b></p> <p><b>3</b></p> <p><b>(4)</b></p>



Question Number	Question	
5.	<p>A London health club has 5,000 members. They each pay monthly fees of £80. The health club owner conducts market research and estimates that price elasticity of demand for its membership is -0.5.</p> <p>If the owner increases monthly fees by 10%, the change in total revenue is likely to be? A, B, C or D</p>	
	<b>Answer</b>	<b>Mark</b>
	<p><b>D</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• Correct calculation which shows candidate workings (3 marks).</li> </ul> <p>Percentage change in demand is <math>-0.5 \times +10 = -5.0</math></p> <p>Original revenue is <math>£80 \times 5000 = £400,000</math>  New revenue is <math>£88 \times 4750 = £418,000</math>  The change in revenue is <math>+£18,000</math></p> <p><b>Note:</b> award candidates who select the correct option and show correct workings full marks. There are various methods candidates might use to calculate answer.  Award candidates who select the incorrect option but show correct workings 2 marks.</p> <p>Also award:</p> <ul style="list-style-type: none"> <li>➤ Definition of price elasticity of demand or formula (1 mark).</li> <li>➤ Demand of -0.5 is price inelastic (1 mark).</li> </ul>	<p><b>1</b></p> <p><b>3</b></p> <p><b>(4)</b></p>

Question Number	Question	
6.	<p data-bbox="448 331 596 356">Price per tonne £</p>  <p data-bbox="411 555 443 580">P1</p> <p data-bbox="411 633 443 658">P2</p> <p data-bbox="464 920 480 945">0</p> <p data-bbox="651 920 683 945">Q1</p> <p data-bbox="730 920 762 945">Q2</p> <p data-bbox="874 920 906 945">Q3</p> <p data-bbox="970 920 1002 945">Q4</p> <p data-bbox="1086 920 1220 974">Quantity wheat (tonnes)</p> <p data-bbox="1114 495 1134 519">S</p> <p data-bbox="1038 864 1059 889">D</p> <p data-bbox="667 533 683 557">X</p> <p data-bbox="1034 533 1050 557">Y</p> <p data-bbox="746 622 762 647">Z</p> <p data-bbox="890 622 906 647">W</p> <p data-bbox="400 1025 1241 1149">The diagram shows the European Union wheat market. It operates a minimum price scheme. The government guarantees to purchase any surplus output at the minimum price. At first the minimum price is at <math>OP_1</math> and the government purchases <math>Q_1Q_4</math> wheat.</p> <p data-bbox="400 1182 1150 1249">If the minimum price is reduced from <math>OP_1</math> to <math>OP_2</math> which of the following is correct? A, B, C or D</p>	
	<b>Answer</b>	<b>Mark</b>
	<p data-bbox="400 1317 416 1341">C</p> <p data-bbox="400 1375 564 1400"><b>Bullet points</b></p> <ul data-bbox="448 1406 1246 1563" style="list-style-type: none"> <li>• Minimum price is a floor price / a level below which the price of wheat cannot fall (1 mark).</li> <li>• Government spending on wheat falls from <math>Q_1Q_4YX</math> to <math>Q_2Q_3WZ</math> (1+1 marks). This may be shown by annotation of the diagram.</li> </ul>	<p data-bbox="1278 1317 1294 1341">1</p> <p data-bbox="1278 1406 1294 1431">3</p> <p data-bbox="1278 1496 1321 1520">(4)</p>

Question Number	Question	
7.	National defence is not likely to be provided in a free market economy.  This may be because of? A, B, C or D	
Answer		Mark
	<p><b>D</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• National defence is a public good (1 mark).</li> <li>• Public goods are non-exclusive in consumption and non-rivalry in consumption (1 mark).</li> <li>• Free rider problem occurs since individuals wait for someone else to provide the service of national defence and then benefit from consuming it (1 mark).</li> </ul> <p>Also award:</p> <ul style="list-style-type: none"> <li>➤ There is no market mechanism to charge individuals for consumption of national defence (1 mark).</li> </ul>	<p>1</p> <p>3</p> <p>(4)</p>

Question Number	Question	
8.	 <p>The diagram shows the market for vaccinations. There are no external costs and no government intervention.</p> <p>Which of the following is correct? A, B, C or D</p>	
	<b>Answer</b>	<b>Mark</b>
	<p><b>B</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• Under-consumption since market equilibrium output is <math>0Q_e</math> which is less than the social equilibrium output of <math>0Q_1</math> (1 mark).</li> <li>• The market will settle at position where <math>MPC=MPB</math> but the social optimum position is where <math>MSC=MSB</math> (1+1 marks).</li> </ul> <p>Also award:</p> <ul style="list-style-type: none"> <li>➤ Area of welfare gain highlighted on diagram (1 mark).</li> <li>➤ Social benefit exceeds social cost for output slice <math>Q_eQ_1</math> (1 mark).</li> <li>➤ Definition of external benefits (eg benefits external to an exchange or, positive third party effects or, the difference between social benefits and private benefits) (1 mark).</li> </ul>	<p><b>1</b></p> <p><b>3</b></p> <p><b>(4)</b></p>

## Section B

Question Number	Question																																				
9 (a) (i)	<p>Road traffic and road pricing</p> <p>With reference to Figure 1, calculate the percentage increase in distance travelled by cars, taxis and vans between 2000 and 2005. Figure 1: UK Road traffic by vehicle type (billion vehicle kilometres)</p> <table border="1" data-bbox="451 501 1185 759"> <thead> <tr> <th>Year</th> <th>Cars, taxis &amp; vans</th> <th>Buses &amp; coaches</th> <th>Lorries</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>2000</td> <td>429.1</td> <td>5.2</td> <td>28.2</td> <td>462.5</td> </tr> <tr> <td>2001</td> <td>436.5</td> <td>5.2</td> <td>28.1</td> <td>469.8</td> </tr> <tr> <td>2002</td> <td>447.9</td> <td>5.2</td> <td>28.3</td> <td>481.4</td> </tr> <tr> <td>2003</td> <td>451.0</td> <td>5.4</td> <td>28.5</td> <td>484.9</td> </tr> <tr> <td>2004</td> <td>458.9</td> <td>5.2</td> <td>29.4</td> <td>493.5</td> </tr> <tr> <td>2005</td> <td>459.8</td> <td>5.2</td> <td>29.0</td> <td>494.0</td> </tr> </tbody> </table> <p>Source: Department for Transport National Road Traffic Survey 2006</p>	Year	Cars, taxis & vans	Buses & coaches	Lorries	Total	2000	429.1	5.2	28.2	462.5	2001	436.5	5.2	28.1	469.8	2002	447.9	5.2	28.3	481.4	2003	451.0	5.4	28.5	484.9	2004	458.9	5.2	29.4	493.5	2005	459.8	5.2	29.0	494.0	
Year	Cars, taxis & vans	Buses & coaches	Lorries	Total																																	
2000	429.1	5.2	28.2	462.5																																	
2001	436.5	5.2	28.1	469.8																																	
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2004	458.9	5.2	29.4	493.5																																	
2005	459.8	5.2	29.0	494.0																																	
	Answer	Mark																																			
	<ul style="list-style-type: none"> <li>Correct calculation  <math display="block">\frac{30.7\text{bn km} - 429.1\text{bn km}}{429.1\text{bn km}} \times 100 = 7.1\%</math> </li> </ul> <p>Note: If incorrect answer but correct method - award <b>1 mark</b>.</p>	2																																			

Question Number	Question	
9 (a) (ii)	Assess the significance of three possible causes of the increase in distance travelled by cars, taxis and vans.	
	Answer	Mark
	<ul style="list-style-type: none"> <li>• Identification of three points <b>(1+1+1 marks)</b> and their explanation <b>(1+1+1 marks)</b>.</li> <li>• Increase in price of substitutes eg buses, coaches and trains.</li> <li>• Poorer quality of substitutes eg reliability and frequency of service.</li> <li>• Decrease in price of complementary goods eg petrol or vehicle servicing.</li> <li>• Increase in real income.</li> <li>• Increase in employment / population.</li> <li>• Increases in supply of road space.</li> </ul> <p><b>Evaluation (Up to 2 marks for any one point which has been developed)</b></p> <p>Relative importance of the factors:</p> <ul style="list-style-type: none"> <li>• The increase in price of substitutes depends upon the strength of a positive cross elasticity of demand.</li> <li>• The decrease in price of complementary goods depends upon the strength of a negative cross elasticity of demand.</li> <li>• The increase in real income depends upon the strength of income elasticity of demand.</li> <li>• The extent of employment growth / population growth, for example, increase in women in work or growth of immigration due to EU expansion.</li> </ul>	<b>(8)</b>

Question Number	Question	
9 (b)	Giving examples, distinguish between the private costs and external costs of motoring.	
	Answer	Mark
	<ul style="list-style-type: none"> <li>• Private costs are internal to an exchange / costs directly imposed on the consumer and producer of an economic activity / the effects on the first and second parties to an exchange <b>(1+1 marks)</b>.</li> <li>• External costs are external to an exchange / negative third party effects / costs from production or consumption the price mechanism ignores / difference between social costs and private costs <b>(1+1 marks)</b>.</li> <li>• One example of private costs from car use required: price of purchasing car / petrol / maintenance cost / depreciation / insurance / car park fees / toll fees <b>(1 mark)</b>.</li> <li>• One example of external costs of private car use required: air pollution / noise pollution / visual pollution / congestion / traffic accidents <b>(1 mark)</b>.</li> </ul>	<b>(6)</b>

Question Number	Question	
9 (c) QWC i-iii	Examine the case for and against an increase in government subsidies to bus and coach companies.  Illustrate your answer with an appropriate subsidy diagram.	
	Answer	
	<ul style="list-style-type: none"> <li>• Definition of subsidy in terms of government grant to bus producers to increase production or consumption (1 mark).</li> <li>• Correct subsidy diagram:               <ul style="list-style-type: none"> <li>➢ Original and new market price / output (1).</li> <li>➢ Area of subsidy (xyvP1) (1 mark).</li> <li>➢ Explanation of diagram e.g. supply increases from S to S1 leading to a fall in price and increase in quantity (1 mark).</li> </ul> </li> </ul> <div style="text-align: center;"> <p style="text-align: center;">Bus Subsidy diagram</p> </div> <ul style="list-style-type: none"> <li>• Case for &amp; against: (2+2 marks - at least one case for and one case against increasing the subsidy).               <ul style="list-style-type: none"> <li>➢ Subsidy could improve bus &amp; coach service eg frequency of bus services / reliability / cleanliness / safety &amp; comfort and so attract more customers.</li> <li>➢ Subsidy could help low income groups who cannot afford a car.</li> <li>➢ Subsidy could reduce road traffic congestion.</li> <li>➢ Bus &amp; coach transport may be an inferior good so may not be effective.</li> <li>➢ Impact of subsidy on government finances - opportunity cost of the subsidy - could the funds have been better used to improve road transport?</li> </ul> </li> </ul>	(12)

	<p><b>Evaluation (2+2 marks for or more points)</b></p> <p>The case for / against increasing the subsidy depends upon whether it will have a significant impact on reducing road congestion. This in turn depends upon:</p> <ul style="list-style-type: none"><li>➤ Price elasticity of demand for bus travel - if inelastic then less effective.</li><li>➤ Magnitude of subsidy - a small amount might have little impact.</li><li>➤ Extent to which bus &amp; coach travel is an inferior good.</li><li>➤ Consideration of how the bus &amp; coach companies might use the extra subsidy.</li><li>➤ Qualitative judgement on whether the advantages outweigh the disadvantages of increasing bus &amp; coach subsidies.</li></ul> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"><li>• To present an argument and conclude on the basis of that argument</li><li>• To organise information clearly and coherently</li><li>• To use economics vocabulary appropriately</li><li>• To use grammar, spelling and punctuation appropriately</li></ul>	
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Question Number	Question	
9 (d)(i)	Examine the likely impact of an increase in vehicle excise duty on road traffic growth ( <i>Extract 1, line 4</i> ).	
	Answer	Mark
	<ul style="list-style-type: none"> <li>• The tax will increase the cost of motoring (1 mark) and so road traffic growth is likely slow down (1 mark).</li> <li>• Reference to price elasticity of demand in determining impact on road traffic growth. Inelastic demand will have little impact (2 marks).</li> </ul> <p>Also award:</p> <ul style="list-style-type: none"> <li>➤ Candidates who use a specific tax diagram (1 mark).</li> </ul> <p><b>Evaluation (2 + 2 marks for two or more points)</b></p> <ul style="list-style-type: none"> <li>➤ The impact on road traffic growth will depend upon the size of the increase in vehicle excise tax.</li> <li>➤ Other factors may offset the increase in tax, for example, an increase in real incomes or a fall in the real price of vehicles.</li> <li>➤ The article implies a significant increase in tax for high polluting vehicles but not so for low polluting vehicles. Motorists may just switch to purchasing smaller and more fuel efficient vehicles - so little impact on reducing road traffic growth.</li> <li>➤ Once the vehicle excise duty is paid it is valid for one year. Motorists may use their vehicle as much as they like within that year. The tax is a fixed charge which is not linked to mileage.</li> <li>➤ There is greater incentive to evade paying vehicle excise tax and continue driving illegally - road traffic growth may continue. This point depends on enforcement of the tax.</li> </ul>	(8)

Question Number	Question	
9 (d)(ii) QWC i-iii	To what extent are the benefits likely to exceed the costs of a national road pricing scheme?	
	Answer	
	<p>Consideration of three points or more - at least one benefit and one cost (2+2+2 marks).</p> <ul style="list-style-type: none"> <li>• Benefits of road pricing include: <ul style="list-style-type: none"> <li>➤ Road space is a scarce resource and so the price mechanism should be allowed to operate in the market to equate demand with available supply.</li> <li>➤ Overcome market failure by internalising external costs / based on principle of polluter pays.</li> <li>➤ Reduce congestion - especially peak times. Encourage road use at off-peak times.</li> <li>➤ Reduce time taken to get to work / transport goods.</li> <li>➤ Reduce air pollution &amp; respiratory diseases / noise &amp; scenic pollution and damage to wildlife.</li> <li>➤ Falling property prices.</li> <li>➤ Reduce road traffic accidents.</li> <li>➤ Raise tax revenue to fund further road improvement schemes.</li> </ul> </li> <li>• Costs of road pricing include: <ul style="list-style-type: none"> <li>➤ Unfair as a regressive form of tax / driving low income motorists off the road.</li> <li>➤ Increase transport costs for road haulage firms.</li> <li>➤ Encourage motorists to use unsuitable routes / damaging roads through heavy traffic.</li> <li>➤ Road pricing may involve high start-up costs. Who pays?</li> <li>➤ Reduce distance labour is willing to travel to work.</li> <li>➤ Loss of trade for businesses affected by road pricing routes e.g. motorway service stations / petrol stations.</li> </ul> </li> </ul> <p><b>Evaluation (3+3 marks for two points well developed or 2+2+2 marks for three points developed).</b></p> <ul style="list-style-type: none"> <li>➤ An awareness of the need to consider social benefits and social costs. This may be illustrated by externality diagram.</li> <li>➤ Difficulty in measuring external costs and external benefits - so may not set the correct level of road charge to achieve the social optimum position. This may be shown by diagram.</li> <li>➤ Relative strengths of each argument.</li> <li>➤ Road pricing may be required in the long-term as traffic growth continues to increase. Consider the growth shown in Figure 1.</li> <li>➤ It depends on the individual. An environmentalist is likely to argue benefits exceed costs. However, a frequent user of tolled roads might argue costs exceed benefits.</li> <li>➤ Consideration of how road pricing compares to other forms of tax on motorists e.g. it is usually linked to time of day &amp; level of congestion - unlike excise tax and VAT on fuel.</li> </ul>	(12)

	<p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"><li>• To present an argument and conclude on the basis of that argument</li><li>• To organise information clearly and coherently</li><li>• To use economics vocabulary appropriately</li><li>• To use grammar, spelling and punctuation appropriately.</li></ul>	
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Question Number	Question	
10 (a)(i)	<p>The price of rubber</p> <p>The price of natural rubber ‘reached a 22-year high in the market’ (Extract 2, line 2).</p> <p>With reference to the data and using a supply and demand diagram, explain why this happened.</p>	
	Answer	Mark
	<div data-bbox="464 611 1166 1227" data-label="Figure"> <p>The diagram shows a supply and demand model for rubber. The vertical axis represents 'Price per tonne £' and the horizontal axis represents 'Quantity (tonnes)'. The original equilibrium is at the intersection of supply curve S and demand curve D, corresponding to price <math>P_e</math> and quantity <math>Q_e</math>. A decrease in supply shifts the supply curve leftward to <math>S_1</math>, and an increase in demand shifts the demand curve rightward to <math>D_1</math>. The new equilibrium is at the intersection of <math>S_1</math> and <math>D_1</math>, corresponding to a higher price <math>P_1</math> and a lower quantity <math>Q_1</math>. Arrows indicate the direction of these shifts.</p> </div> <ul style="list-style-type: none"> <li>• Correct diagram: <ul style="list-style-type: none"> <li>➤ Increase in demand (1 mark)</li> <li>➤ Decrease in supply (1 mark)</li> <li>➤ Original and new equilibrium price / quantity (1 mark)</li> </ul> </li> <li>• Explanation of increase in demand due to: <ul style="list-style-type: none"> <li>➤ Increase in living standards in China and consequent demand for motor vehicles and rubber tyres (1 mark).</li> <li>➤ Higher production costs of synthetic rubber (1 mark).</li> <li>➤ Speculative demand for natural rubber due to predicted deficit in production by 2010 (1 mark).</li> </ul> </li> <li>• Explanation of decrease in supply due to: <ul style="list-style-type: none"> <li>➤ Poor weather in Thailand, Malaysia and Indonesia (1 mark).</li> </ul> </li> </ul>	(7)

Question Number	Question	
10 (a)(ii)	Comment on the likely cross elasticity of demand between synthetic rubber and natural rubber.	
	Answer	Mark
	<ul style="list-style-type: none"> <li>• Definition or formula for cross elasticity of demand eg the responsiveness in demand for good 'B' due to a change in price of good 'A' (1 mark).</li> <li>• Synthetic rubber and natural rubber are substitutes (1 mark) with a positive cross elasticity of demand (1 mark).</li> <li>• An increase in the price of synthetic rubber will cause an increase in demand for natural rubber (accept relevant variations) (1 mark).</li> </ul>	(4)

Question Number	Question	
Q10 (b)	What can you learn from the passage about the price elasticity of supply for natural rubber? Justify your answer.	
	Answer	Mark
	<ul style="list-style-type: none"> <li>• Definition or formula of price elasticity of supply eg the responsiveness in supply of rubber due to a change in its price (1 mark).</li> <li>• Supply appears price inelastic / where the proportionate change in supply is less than the proportionate change in price (1 mark).</li> <li>• The extract refers to 'a shortfall in production of natural rubber for the foreseeable future' (1 mark).</li> </ul> <p>Also award for:</p> <ul style="list-style-type: none"> <li>➤ Diagram depicting price inelastic supply of natural rubber (1 mark).</li> </ul> <p><b>Evaluation (Up to 2 marks for any one point)</b></p> <ul style="list-style-type: none"> <li>• It takes a long time to farm natural rubber from trees. More have to be planted and then there is a wait until they mature.</li> <li>• Lack of rubber stocks - shortfall in production predicted to worsen up to 2010.</li> </ul>	(5)

Question Number	Question	
10 (c)	Assess the likely impact of the rise in price of natural rubber for consumers of natural rubber such as car manufacturers.	
	Answer	
	<ul style="list-style-type: none"> <li>• Consumers (car manufacturers) are likely to face increased production costs (1 mark) and may try and pass these on to their customers eg car dealers, private buyers or fleet car buyers (1 mark).</li> <li>• Tyre manufacturers may experience falling profits / therefore attempt to increase efficiency / cut output and employment / seek substitutes / consider recycling tyres. (2+2 marks).</li> </ul> <p><b>Evaluation (2+2 marks for two or more points)</b></p> <ul style="list-style-type: none"> <li>➤ Impact depends on percentage of total costs which natural rubber comprises.</li> <li>➤ Impact depends on price elasticity of demand for cars - if inelastic; the car manufacturers could pass on increased costs to their own customers.</li> <li>➤ Impact depends on ability to find long term substitutes for natural rubber or the ability to recycle it.</li> <li>➤ Impact depends upon existing stocks of natural rubber held by tyre manufacturers.</li> </ul>	<b>(10)</b>

Question Number	Question	
<b>10 (d)(i)</b> <b>QWC i-iii</b>	Evaluate <b>two</b> likely consequences of fluctuating prices on producers of natural rubber.	
	<b>Answer</b>	
	<ul style="list-style-type: none"> <li>• Fluctuating prices of natural rubber may lead to <b>(1+1 marks for identifying two points and 2+2 marks for their explanation)</b>: <ul style="list-style-type: none"> <li>➤ Fluctuating revenues (and profits) of producers - affecting their living standards. There may be employment implications - increase or decrease the numbers employed.</li> <li>➤ For producers who have specialised completely on rubber production they may go bankrupt when revenues fall below costs of production.</li> <li>➤ Rubber producers may decide to diversify into production of other commodities or goods and so reduce risk from price fluctuations.</li> <li>➤ Increased uncertainty about the future. Producers may be reluctant to invest for the long-term if revenues and profits fluctuate. Also funds for investment may not be available in some years.</li> <li>➤ Producers may attempt to build up stocks / run buffer stock scheme to stabilise prices, especially when they are falling.</li> </ul> </li> </ul> <p>Note: Reference to the cobweb model is not required to achieve full marks.</p> <p><b>Evaluation (2+2 marks for two or more points)</b></p> <ul style="list-style-type: none"> <li>➤ Size of price fluctuations: the greater the price fluctuations the greater the fluctuations in revenues and profits. Uncertainty is also likely to increase.</li> <li>➤ Time period: Figure 2 shows considerable fluctuations but within a steady upward price trend. This implies natural rubber producers are gaining overall in the long term.</li> <li>➤ Significance of price elasticity of demand and supply. A price inelastic demand for rubber will favour producers when prices are rising (total revenue and profits should increase) but be unfavourable when prices are falling (total revenue and profits should decrease).</li> </ul> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately.</li> </ul>	<b>(10)</b>

Question Number	Question	
<b>(d) (ii)</b> <b>QWC i-iii</b>	Assess the likely success of a buffer stock scheme for natural rubber. (Use an appropriate diagram in your answer.)	
	Answer	
	<div data-bbox="427 465 1125 981" data-label="Figure"> </div> <ul style="list-style-type: none"> <li>• Correct diagram up to three marks (accept variation which shows one target price rather than target price band): <ul style="list-style-type: none"> <li>➤ Pt = target price / target price band P1P2 (1 mark)</li> <li>➤ Maximum price / minimum price lines or, the permitted quantity before intervention ranges between 0qx and 0qy (2 marks)</li> </ul> </li> <li>• Explanation of how buffer stocks scheme works (up to 3 marks for any one point) <ul style="list-style-type: none"> <li>➤ Producer or government organisation which intervenes in a market by holding stocks of a commodity; it will buy or sell a commodity to stabilise price / producer revenues.</li> <li>➤ Reference to output less than Qx or more than Qy and how this causes intervention through buffer stocks scheme.</li> <li>➤ Stocks released on to market if supply less than Qx / Stocks added to if supply greater than Qy.</li> </ul> </li> </ul>	<b>(12)</b>



**Evaluation (3+3 marks for two points well developed or 2+2+2 marks for three points).**

The scheme is unlikely to be successful since:

- The extract refers to rubber shortages to remain in foreseeable future - so no pressure to create buffer stock scheme among producers especially as prices are rising.
- The extract refers to the failure of a previous buffer stock scheme.
- It requires all major producers to participate - otherwise risk being undersold.
- Require funds to purchase stocks or support farmers in times of surplus. These funds may not be forthcoming.
- Require spare stocks to cope with shortages - as in the current situation, otherwise the scheme will be unable to hold price down within the target price band. The long term trend looks bleak as prices are likely to remain high.
- Storage costs of the stockpiles.
- Danger of cheating among individual producers.
- Prioritise the relative importance of scheme's limitations - the current shortages appear to be highly significant.
- Danger of growth of synthetic rubber production which may undermine buffer stocks for natural rubber.

Candidates may argue the scheme could be successful:

- The current shortage of natural rubber of 250,000 tonnes is relatively small compared to overall production of 8.7 million tonnes in 2005. One good harvest might lead to surplus production and provide stocks for the scheme.
- Natural rubber can be stored for a long time - increasing the potential success of a scheme.
- It might be able to work for a short term period where producers seek price stability. The longer the time period, the greater the pressure on the scheme to breakdown.

**Quality of written communications will be assessed in this question based on the candidate's ability:**

- To present an argument and conclude on the basis of that argument
- To organise information clearly and coherently
- To use economics vocabulary appropriately
- To use grammar, spelling and punctuation appropriately.



## Unit 2: Managing the Economy

Question Number	Question	
1 (a) (i)	<p><b>Growth and development</b></p> <p>Refer to Figure 1 and Extract 1.</p> <p>What is meant by the phrase '<i>index of dollar oilprices</i>' Jan 2002=100?</p>	
	Answer	Mark
	Explanation of <b>base year</b> January 2002 (2 marks) and <b>dollar price index</b> as means of comparing price changes (2 marks)	(4)

Question Number	Question	
1 (a) (ii)	Using an appropriate diagram, explain the likely effect of the change in oil prices on the level of aggregate supply and the price level in the UK.	
	Answer	Mark
	Connection between oil and aggregate supply e.g. oil is a general production cost (application) (2 marks). Diagram showing leftwards/upwards shift in aggregate supply, or other appropriate diagram (analysis) (4 marks). Fall in aggregate supply (2 mark) rise in price level (2 marks) either on diagram or described.	(10)

Question Number	Question	
1 (b)(i)	Using the data in Figure 2:	
	Outline <b>one</b> advantage and <b>one</b> disadvantage of using GDP figures to measure standards of living.	
	Answer	Mark
	<p><b>Identification: (2 marks) Explanation: (2 marks) Application: (4 marks)</b></p> <p>Advantages might include:</p> <ul style="list-style-type: none"> <li>• Internationally recognisable</li> <li>• Relatively similar methods used in different countries</li> <li>• An effectively measure over time for demonstrating growth</li> </ul> <p>Disadvantages might include:</p> <ul style="list-style-type: none"> <li>• Incomplete data, e.g. hidden economy, self sufficiency</li> <li>• Lack of inclusion externalities</li> <li>• Other weaknesses, e.g. no measure of quality of life or deprivation</li> </ul> <p>Application of GDP figures to standard of living (4 marks)</p>	(8)

Question Number	Question	
1 (b)(ii)	GDP measures economic development. Examine the relative merits of <b>two other</b> indicators as measures of economic development.	
	Answer	Mark
	<p>The indicators or measures may or may not be drawn from the data. <b>Up to 4 marks</b> for each indicator or measure (there is no requirement to distinguish the two at AS level) outlined and <b>connected</b> to the concept of <b>development</b>.</p> <p>Evaluation (<b>4 marks</b>), Award (2 x 2 marks) for each factor. Factors might include:</p> <ul style="list-style-type: none"> <li>• the need for a measure of quality might include health, education, poverty or other indicators.</li> <li>• difficulties of measurement, eg transparency issues.</li> <li>• changes over time.</li> <li>• magnitude of problems depends on the income level of the countries involved.</li> <li>• perhaps the GDP figures are best used in conjunction with other methods.</li> <li>• there are some advantages in making comparisons over time when using GDP</li> </ul>	(12)

Question Number	Question	
1 (c) (i)	Referring to Extract 2:  Explain what is meant by the term ' <i>productivity gap</i> ' (line 4).	
	Answer	Mark
	<p>Output per unit of input (<b>2 marks</b>) is different in different countries/over time/compared with potential with data reference (<b>2 marks</b>).</p> <p>Award no marks out of 2 if only a sense of production, and a maximum of 1 mark if only a sense of relative efficiencies.</p>	(4)

Question Number	Question	
1 (c)(ii) QWC i-iii	Differences in productivity cause different growth rates in economies.  Examine <b>two other</b> likely causes of different growth rates in economies.	
	Answer	Mark
	For each likely cause <b>(2 x 4 marks)</b> ;  Identify possible causes <b>(2 marks each, or 1 mark if not fully convincing)</b> and <b>4 marks</b> for connection between the factor and the rate of growth. Possible causal factors might include: <ul style="list-style-type: none"> <li>• capital markets;</li> <li>• investment;</li> <li>• innovation;</li> <li>• migration;</li> <li>• changes in birth rates.</li> </ul> Constraints may also be awarded, for example, absence of capital markets or instability of government, where these are explained as the absence of a cause for growth (as outlined in the specification).  Evaluation <b>4 marks (1 x 4 marks or 2 x 2 marks)</b> .  <b>Quality of written communications will be assessed in this question based on the candidate's ability:</b> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	<b>(12)</b>

Level	Mark	Descriptor
<b>Level 3</b>	9-12	2 convincing causes with transmission mechanism making the connection with growth AND with at least one evaluative point.
<b>Level 2</b>	5-8	2 convincing causes with no connections, or 1 convincing cause with transmission mechanism, with no evaluative point; 1 or 2 less-convincing causes with some evaluation
<b>Level 1</b>	1-4	Identification of relevant causes with or without brief evaluative keywords.

Question Number	Question	
1(d) QWC i-iii	An economy has significant rises in its input costs. Examine the likely effectiveness of supply side policies for the control of inflation in such an economy.	
	Answer	Mark
	<p><b>Definition and outline of the nature of supply side policies (6 marks);</b></p> <p>of which, accept rightward shift of the aggregate supply curve or similar definition (2 marks) and diagram showing rightward shift of AS curve or similar explanation in words demonstrating the impact on the price level and real output (4 marks)</p> <p><b>Explanation of at least two policies (12 marks);</b> of which, up to 6 marks each for two policies explained in depth with examples, or up to 4 marks for three policies explained clearly.</p> <p><b>Evaluation (12 marks);</b></p> <p>of which award two very well developed points (6 marks each) or three factors clearly given (up to 4 marks each). Factors might include:</p> <ul style="list-style-type: none"> <li>• the relative advantages and disadvantages of using <i>demand</i> management in this context.</li> <li>• the recent UK experience demonstrating control of inflation alongside growth.</li> <li>• the problem of achieving supply side shifts in the context of the UK - very little else to privatise, and unions under control - maybe a focus on the area of productivity is required if there is to be further shifts of the aggregate supply curve?</li> <li>• long term nature of supply side policies, short term nature (possibly) of inflation - so need to use demand side?</li> </ul> <p><b>Award up to 8 marks for Evaluation if there is no reference to the context of high input costs.</b></p> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(30)

Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing factors with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing factors with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing factors with no evaluative point; 1 or 2 less-convincing factors with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

Question Number	Question	
2 (a) (i)	<p><b>Demand management</b></p> <p>Refer to Figures 1 and 2:</p> <p>Using Figure 1, calculate the percentage change in the value of household debt relative to income between the <b>start of 2000</b> and the <b>end of 2003</b>.</p>	
	Answer	Mark
	Increase of 32% ( <b>4 marks</b> ); or for correct formula change over original $(1.45-1.1/1.12)*100$ but wrong calculation ( <b>2 marks</b> ); for an answer with incorrect mark base (eg 24%) award 0 marks. OR allow ( <b>2 marks</b> ) for absolute value change $(1.45-1.12) = 0.33$ and a comment on the size of the increase ( <b>2 marks</b> ).	(4)

Question Number	Question	
2 (a)(ii)	<p>Explain the contrasting trends of household debt and interest payments between the <b>start of 2000</b> and the <b>end of 2003</b>.</p>	
	Answer	Mark
	<p>Outline of the <b>trend</b>: although the total value of debt relative to income is rising, the interest payments are falling which implies a fall in interest rates (<b>4 marks</b>). The fall in interest rates outweighs the rise in total per-person debt (<b>2 marks</b>) or other analytical comment, such as the comment that towards the end of 2003 the trend reverses (<b>2 marks</b>).</p>	(6)

Question Number	Question	
2 (a) (iii)	<p>Assess the likely impact on UK income distribution if interest rates were raised.</p>	
	Answer	Mark
	<p>Likely widening of inequalities process as those with positive net wealth gain while those with negative net wealth lose (<b>4 marks</b>) with evaluative comment or comments (<b>4 marks or 2 x 2 marks</b>).</p> <p>Evaluation might be for example:</p> <ul style="list-style-type: none"> <li>• that while inflation might be kept under control, this is at the expense of those in lower income groups (<b>2 marks</b>)</li> <li>• in the long run the lower income groups might benefit from a low inflation economy (<b>2 marks</b>)</li> <li>• it may be that policies other than tight monetary policy might be preferable in these circumstances (<b>2 marks</b>).</li> </ul>	(8)

Question Number	Question	
2 (b) (i) QWC i-iii	Assess the likely impact of 'a slowdown in the housing market' (Extract 1, line 2) on aggregate demand.	
	Answer	Mark
	<p>Wealth effect (<b>4 marks</b>): of which, aggregate demand would increase with equity release or confidence factors (<b>2 marks</b>) more slowly (<b>2 marks</b>); and accept fall in aggregate demand if related to confidence factors or similar, with transmission mechanism (<b>4 marks</b>).</p> <p>Evaluation <b>4 marks (1 x 4 marks or 2 x 2 marks)</b> Factors might include:</p> <ul style="list-style-type: none"> <li>• houses are a significant component of wealth in the UK which will therefore have a major effect (<b>2 marks</b>).</li> <li>• consumption comprises two thirds of aggregate demand which implies a strong inter-relationship (<b>2 marks</b>).</li> <li>• a slowdown is not the same as a fall, and therefore there might not be a very strong impact, especially in a market which has had many slowdowns which have come to nothing (<b>2 marks</b>).</li> <li>• wealth effects take some time to trigger spending changes, and other factors are not necessarily equal, eg confidence might be generated by other factors (<b>2 marks</b>).</li> </ul> <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(12)

Level	Mark	Descriptor
Level 3	9-12	Analysis of wealth effects and aggregate demand shift or similar with at least one evaluative point
Level 2	5-8	Convincing analysis of aggregate demand shift with no evaluative point; or less-accurate aggregate demand analysis with some evaluation
Level 1	1-4	Identification of relevant points with or without brief evaluative keywords

Question Number	Question	
2 (b) (ii)	The Bank of England's Monetary Policy Committee uses house prices as a factor when it decides the interest rate.  Explain <b>two other</b> factors it might use.	
	Answer	Mark
	Identification of possible factors eg financial markets; growth and investment, exchange rates; Balance of Payments; performance in other countries; confidence levels; contrasts between the manufacturing and service performance ( <b>4 marks</b> ); explanation of how these factors might influence the price level ( <b>4 marks</b> ).	(8)



Question Number	Question	
2 (c) (i)	Explain what is meant by 'export-led growth' (Extract 2, line 6).	
	Answer	Mark
	Export led growth is where the main cause of an increase in aggregate demand (or GDP) (2 marks) is via export promotion (2 marks)	(4)

Question Number	Question	
2 (c) (ii)	Contrast the impact of export-led growth on the UK balance of payments with an increase in consumer spending.	
	Answer	Mark
	Explanation of impact on aggregate demand via X-M; an increase in consumer spending is likely to worsen the balance of payments (sucking in of imports, less incentive for firms to export) (4 marks); explanation of possible improvement on balance of payments, since X is an injection into the circular flow (4 marks).	(8)

Question Number	Question	
2 (d) QWC i-iii	Using the concept of the multiplier, evaluate the likely effects on the price level and equilibrium real output of rising interest rates.	
	Indicative content	Mark
	<p><b>Definition and outline of multiplier (6 marks);</b></p> <p>of which, concept of multiplier, for example that the knock-on effects of changes in aggregate demand will have a magnified impact on the circular flow of income. Award up to 2 marks for appropriate use of numerical analysis (2 marks). For the effects, award a diagram or similar explanation of the outward shift of aggregate demand and the knock on effects on further rounds of spending showing change in price levels and equilibrium real output (4 marks).</p> <p><b>Explanation (12 marks)</b></p> <p>of which, up to 6 marks each for two transmissions mechanisms explained in depth with examples, or up to 4 marks for three transmissions mechanisms explained clearly).</p> <p><b>Evaluation (12 marks)</b></p> <p>of which award two very well developed points (6 marks each) or three factors clearly given (up to 4 marks each). Factors might include:</p> <ul style="list-style-type: none"> <li>• problematic in that some data implies different results than others, eg house prices are cooling but household debt increasing.</li> <li>• time lags - some of the changes might not yet have had their effects.</li> <li>• implementation lags - interest rate rises do not have an immediate effect on debtors, as they may have negotiated fixed rates.</li> <li>• Monetary Policy Committee likely to react to the data before events turn out as predicted, so price levels won't rise as the data predicts (hysteresis effects).</li> <li>• house prices - problems in collection of data, disproportionate effect of speculation.</li> <li>• exports may or may not rise, since 74% trade still with newly enlarged euro area, and demand there is slow when compared to the Asian high-growth data.</li> <li>• the relative scale of the effects might be considered in the wider context of other factors that might be affecting the economy at the time.</li> <li>• prioritisation of the effects described, with justification.</li> </ul> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(30)

Level	Mark	Descriptor
<b>Level 4</b>	25-30	2 or 3 convincing factors with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks)
<b>Level 3</b>	19-24	2 or 3 convincing factors with at least one evaluative point (mark to a cap of 18 if no evaluation)
<b>Level 2</b>	7-18	2 or 3 convincing factors with no evaluative point; 1 or 2 less than convincing factors with some evaluation
<b>Level 1</b>	1-6	Identification of relevant points with or without brief evaluative keywords

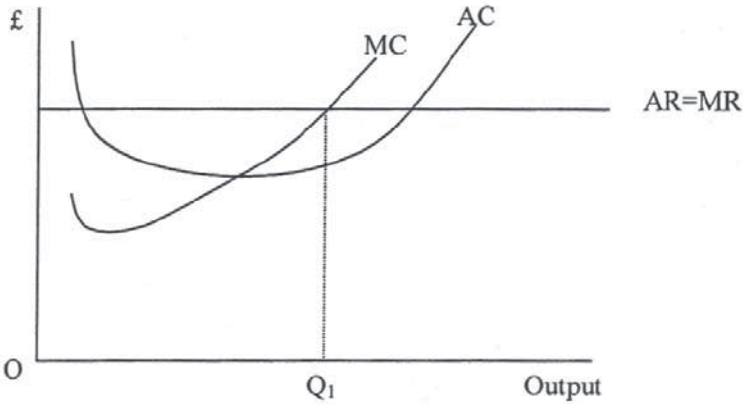


## Unit 3: Business Economics and Economic Efficiency

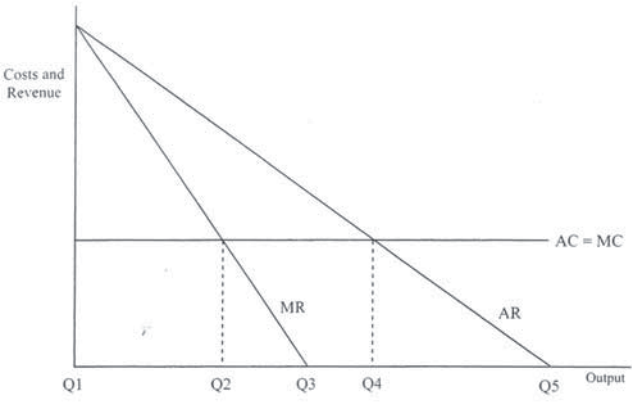
### Section A: Supported Multiple Choice

1	2	3	4	5	6	7	8
C	B	C	D	A	E	B	C

Question Number	Question															
1.	<p>The following chart shows percentage market shares in the mobile phone market in 2006</p> <p style="text-align: center;"><b>Mobile Phone Market Share 4th Quarter 2006</b></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <caption>Mobile Phone Market Share 4th Quarter 2006</caption> <thead> <tr> <th>Company</th> <th>Market Share (%)</th> </tr> </thead> <tbody> <tr> <td>Nokia</td> <td>35.40%</td> </tr> <tr> <td>Motorola</td> <td>21.48%</td> </tr> <tr> <td>Samsung</td> <td>12.28%</td> </tr> <tr> <td>Sony Ericsson</td> <td>7.92%</td> </tr> <tr> <td>LG</td> <td>7.40%</td> </tr> <tr> <td>Others</td> <td>15.52%</td> </tr> </tbody> </table> <p>Source: <a href="http://www.mobileisgood.com/statistics.html">www.mobileisgood.com/statistics.html</a></p> <p>Which of the following is true for this market? A, B, C, D or E</p>	Company	Market Share (%)	Nokia	35.40%	Motorola	21.48%	Samsung	12.28%	Sony Ericsson	7.92%	LG	7.40%	Others	15.52%	
Company	Market Share (%)															
Nokia	35.40%															
Motorola	21.48%															
Samsung	12.28%															
Sony Ericsson	7.92%															
LG	7.40%															
Others	15.52%															
	Answer	Mark														
	<p><b>C</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• Identification that the market is highly concentrated (1 mark)</li> <li>• Calculation of 3 firm (69.16%) or 4 firm (77.08%) or 5 firm (84.48%) concentration ratio (1 mark)</li> <li>• Explanation of meaning of highly concentrated and/or why such an industry may be highly concentrated (1 mark).</li> </ul>	<p>1</p> <p>3</p> <p>(4)</p>														

Question Number	Question	
2.	<p>The diagram below shows a firm producing at output <math>Q_1</math></p>  <p>Which of the following applies to such a firm? A, B, C, D or E</p>	
	<b>Answer</b>	<b>Mark</b>
	<p><b>B</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• Annotation of diagram showing super normal profit (1 mark)</li> <li>• Identification that the firm is operating under conditions of perfect competition because of perfectly elastic (Synoptic Unit 1 Elasticity) AR/MR curve (1 mark)</li> <li>• Discussion of why a perfectly competitive firm can experience super normal profits only in the SR (1 mark)</li> </ul>	<p><b>1</b></p> <p><b>3</b></p> <p><b>(4)</b></p>

Question Number	Question									
3.	<p>A firm producing hand-built sports cars has the following costs:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Total Output of Cars</th> <th>Total Costs</th> </tr> </thead> <tbody> <tr> <td>100</td> <td>£800 000</td> </tr> <tr> <td>101</td> <td>£806 000</td> </tr> <tr> <td>102</td> <td>£813 000</td> </tr> </tbody> </table> <p>The above data illustrates that: A, B, C, D or E</p>	Total Output of Cars	Total Costs	100	£800 000	101	£806 000	102	£813 000	
Total Output of Cars	Total Costs									
100	£800 000									
101	£806 000									
102	£813 000									
	Answer	Mark								
	<p><b>C</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• Calculation of Marginal Cost and Average Cost (1 mark each)</li> <li>• Definition of Marginal Cost and Average Cost (1 mark each)</li> <li>• Diagram to show Marginal Cost rising but average cost falling or discussion of this (1 mark)</li> </ul>	<p>1</p> <p>3</p> <p>(4)</p>								

Question Number	Question	
4.	 <p>The above diagram shows a competitive industry with constant returns to scale operating at output level <math>Q_4</math>. If there were no change in costs and the firms in this industry combined to act as a profit maximising monopoly, what would happen to the output? Would it:</p> <p>A, B, C, D or E</p>	
	Answer	Mark
	<p><b>D</b></p> <p><b>Bullet points</b></p> <ul style="list-style-type: none"> <li>• Identification of profit maximising point as <math>MC=MR</math> (1 mark)</li> <li>• Annotation of diagram (1 mark)</li> <li>• Explanation of why profit maximising occurs at <math>Q_2</math> ie <math>MC=MR</math> (1 mark)</li> </ul>	<p>1</p> <p>3</p> <p>(4)</p>

Question Number	Question	
5.	In which of the following is the practice of price discrimination <b>least</b> likely to be possible?  A, B, C, D or E	
	<b>Answer</b>	<b>Mark</b>
	A	1
	<b>Bullet points</b> <ul style="list-style-type: none"> <li>• Definition of price discrimination (1 mark)</li> <li>• Conditions necessary for price discrimination (1 mark) and application to the question discussing implications for milk sales (1 mark)</li> </ul>	3  (4)

Question Number	Question	
6.	In July 2006 the European Commission fined Microsoft €280m for anti-competitive behaviour.  What reasons might the Commission have had? A, B, C, D or E	
	<b>Answer</b>	<b>Mark</b>
	E	1
	<b>Bullet points</b> <ul style="list-style-type: none"> <li>• Explanation of meaning of restrictive practices (2 marks)</li> <li>• Explanation of why the commission may impose fines - attempting to encourage competition (1 mark)</li> </ul>	3  (4)

Question Number	Question	
7.	A firm in long run equilibrium in monopolistic competition will:  A, B, C, D or E	
	<b>Answer</b>	<b>Mark</b>
	B	1
	<b>Bullet points</b> <ul style="list-style-type: none"> <li>• Definition of monopolistic competition (1 mark)</li> <li>• Diagram showing long run equilibrium (1 mark)</li> <li>• Explanation of why a monopolistic competitive firm in the long run achieves only normal profit (reference to low barriers to entry necessary) (1 mark)</li> </ul> <b>Also award for:</b> <ul style="list-style-type: none"> <li>• Definition of allocative efficiency i.e. <math>P=MC</math> (1 mark)</li> <li>• Identification of allocative efficiency on diagram (1 mark)</li> </ul>	3  (4)



Question Number	Question	
8.	The supply of water to domestic consumers in a major city has: A, B, C, D or E	
	<b>Answer</b>	Mark
	C	1
	<b>Bullet points</b> <ul style="list-style-type: none"> <li>• Explanation of meaning of high sunk costs (1 mark) and example (1 mark)</li> <li>• Application to water industry (1 mark)</li> </ul>	3 (4)

Question Number	Question	
9 (a)	What form of integration would result from a successful bid for Aer Lingus by Ryanair?	
	<b>Answer</b>	Mark
	Identification that this is a horizontal merger (1 mark) Explanation of the meaning of a horizontal merger (2 marks) Application to the airline industry (1 mark)	(4)

Question Number	Question	
9.(b)	Discuss two benefits Ryanair might want to exploit from a takeover of Aer Lingus.	
	<b>Indicative content</b>	Mark
	Two benefits identified (1 mark each) explained (1 mark each) evaluated (2 marks each).  <b>Benefits may include:</b> <ul style="list-style-type: none"> <li>• Economies of scale - purchasing on planes and fuel, marketing, financial, managerial (any two economies of scale identified, explained and evaluated will be sufficient for full marks).</li> <li>• Market share, provision of greater routes, ability to compete with bigger airlines.</li> </ul> <b>Evaluation</b> <ul style="list-style-type: none"> <li>• The extent to which economies of scale may reduce ATC, or the time period for ATC to fall and economies of scale to work. (Synoptic link to Economist's toolkit)</li> </ul>	(8)

Question Number	Question	
9 (c) QWC i-iii	To what extent is the London to Dublin air route a contestable market?	
	Indicative content	Mark
	<ul style="list-style-type: none"> <li>• Definition of the meaning of contestable (1 mark)</li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>• Explanation of the meaning of sunk costs and application to the airline industry. (2 marks)</li> <li>• Reasons why Dublin to London has become more contestable (up to 3 marks.) This may include ability to lease planes; development of regional airports (Luton and Stanstead); advent of the internet as a medium to book; development of no frills concept; cheaper running costs; carriers such as British Airways may enter the market.</li> </ul> <p><b>Evaluation (6 marks):</b> (Either 2 points x 3 marks or 3 points x 2 marks) Could include:</p> <ul style="list-style-type: none"> <li>• high marketing costs,</li> <li>• examples of success in no frills limited - major airlines have moved toward offering no frills service,</li> <li>• limited competition exists on this route.</li> </ul> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(12)

Level	Mark	Descriptor
Level 1	1-3	Definition of contestable (1 mark), explanation of meaning of sunk costs and application to the airline industry (2 marks)
Level 2	4-7	Definition of contestable (1 mark), explanation of meaning of sunk costs and application to the airline industry (2 marks.) Reasons why Dublin to London has become more contestable (up to 3 marks). Brief evaluation (1 mark)
Level 3	8-12	Definition of contestable (1 mark), explanation of meaning of sunk costs and application to the airline industry (2 marks.) Reasons why Dublin to London has become more contestable (up to 3 marks.) Evaluation (2 points x 3 marks or 3 points x 2 marks) - total for evaluation 6 marks

Question Number	Question	
<b>9 (d) QWC i-iii</b>	Assess whether integration between airlines, such as Ryanair and Aer Lingus, is in the interests of airline passengers?	
	Indicative content	Mark
	<p>Explanation of issues that competition authorities might consider:</p> <ul style="list-style-type: none"> <li>• loss of competition, (<b>synoptic link to Unit 1 - Market Failure</b>)</li> <li>• ability to price out competitors,</li> <li>• ability to exploit passengers</li> <li>• possible economies of scale passed on to customers in the form of lower prices (<b>Synoptic link to Unit 1 - shifts in the supply curve</b>)</li> <li>• price and non-price competition may still be significant between remaining firms.</li> </ul> <p><b>(3 issues x up to 3 marks each - 1 mark for identification + 2 for explanation (allocated 3+3+2 marks.)</b></p> <p><b>Evaluation x 8 marks (synoptic link to Economist's toolkit)</b>  <b>3 x up to 3 marks each (allocated 3+3+2 marks)</b>            Evaluation may include:</p> <ul style="list-style-type: none"> <li>• Existence of price competition (<b>synoptic link to Unit 1 - interaction of demand and supply</b>) will depend on the extent of integration</li> <li>• Limited scope of investigation</li> <li>• Commissioners tend to block few mergers</li> <li>• Commission has tended to promote mergers between airlines</li> <li>• Ryanair and Aer Lingus are very small airlines compared with major airlines</li> <li>• Competition exists on the route, route is contestable</li> <li>• Commission ignores factors such as unemployment, lack of trade union support.</li> </ul> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(16)

Level	Mark	Descriptor
<b>Level 1</b>	1-4	Identification of issues that competition authorities might consider ( <b>3 marks</b> )
<b>Level 2</b>	5-9	Explanation of issues that competition authorities might consider ( <b>2 marks</b> ), limited evaluation
<b>Level 3</b>	10-16	Explanation of issues that competition authorities might consider x 8 marks ( <b>3 issues x up to 3 marks each allocated 3+3+2 marks</b> ), <b>Evaluation x 8 marks - 3 x up to 3 marks each (allocated 3+3+2 marks)</b>

Question Number	Question	
<b>10 (a)</b>	What market structure does the UK banking sector seem to operate in?	
	Answer	Mark
	<p>Identification that the market structure is an oligopoly <b>(1 mark)</b></p> <p>Explanation of why this may be the case using the characteristics of the market structure <b>(3 marks - 1 mark for identification, 1 mark for analysis and 1 mark for identification within explanation)</b>. These may include the number of firms, similarity of the products, barriers to entry, ability to set price, prevalence of non-price competition</p>	<b>(4)</b>

Question Number	Question	Mark													
<b>10 (b)</b> <b>QWC i-iii</b>	To what extent is the UK banking sector likely to experience collusion? Refer to simple game theory to support your answer.														
	Indicative content	Mark													
	<p>Definition of collusion (explicit or implicit in answer) <b>(1 mark)</b> - <b>reference here may be made to illicit and tacit collusion</b></p> <p>Explanation of factors that favour collusion <b>(2 marks)</b> Use of a simple 2x2 grid to explain the gains to be obtained by firms from collusion - <b>Correct use of game theory (2 marks)</b> and <b>explanation of this model (1 mark.) Total 3 marks.</b></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: center;"><b>Bank A</b></td> <td></td> </tr> <tr> <td style="text-align: center;">Current Acc charges</td> <td style="text-align: center;"><b>£25</b></td> <td style="text-align: center;"><b>£10</b></td> </tr> <tr> <td style="text-align: center;">Bank B</td> <td style="text-align: center;"><b>£25</b></td> <td style="text-align: center;"><b>£10</b></td> </tr> </table> <div style="margin-left: 150px; margin-top: 10px;"> <table border="1" style="border-collapse: collapse;"> <tr> <td style="padding: 5px;"><b>A</b> Each get £10m</td> <td style="padding: 5px;"><b>C</b> Bank B £5m  <b>Bank A £12m</b></td> </tr> <tr> <td style="padding: 5px;"><b>B</b> Bank B £12m  <b>Bank A £5m</b></td> <td style="padding: 5px;"><b>D</b> Each gets £8m</td> </tr> </table> </div> <p><b>Evaluation:</b></p> <ul style="list-style-type: none"> <li>• (Synoptic link to Economist’s toolkit) 3 points x 2 marks (or 2 points x 3 marks) this may include the temptation to break any collusion, reference to the penalties for being caught and illegality of collusion, or difficulties of organising the a number of firms to collude.</li> <li>• Reference may also be made to the role of price leadership, and tacit collusion. (Synoptic link to Unit 1 Market Failure)</li> </ul> <p><b>Quality of written communications will be assessed in this question based on the candidate’s ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>		<b>Bank A</b>		Current Acc charges	<b>£25</b>	<b>£10</b>	Bank B	<b>£25</b>	<b>£10</b>	<b>A</b> Each get £10m	<b>C</b> Bank B £5m  <b>Bank A £12m</b>	<b>B</b> Bank B £12m  <b>Bank A £5m</b>	<b>D</b> Each gets £8m	<b>(12)</b>
	<b>Bank A</b>														
Current Acc charges	<b>£25</b>	<b>£10</b>													
Bank B	<b>£25</b>	<b>£10</b>													
<b>A</b> Each get £10m	<b>C</b> Bank B £5m  <b>Bank A £12m</b>														
<b>B</b> Bank B £12m  <b>Bank A £5m</b>	<b>D</b> Each gets £8m														

Level	Mark	Descriptor
<b>Level 1</b>	1-4	Definition of collusion <b>(1 mark)</b> , explanation of factors favouring collusion <b>(2 marks.)</b>
<b>Level 2</b>	4-7	Definition of collusion <b>(1 mark)</b> , explanation of factors favouring collusion <b>(2 marks.)</b> Use of a simple 2x2 grid to explain the gains to be obtained by firms from collusion <b>(3 marks)</b> . Brief evaluation <b>(1 mark)</b>
<b>Level 3</b>	8-12	Definition of collusion <b>(1 mark)</b> , explanation of factors favouring collusion <b>(2 marks.)</b> Use of a simple 2x2 grid to explain the gains to be obtained by firms from collusion <b>(3 marks)</b> . Evaluation <b>(2 points x 3 marks or 3 points x 2 marks)</b> - total for evaluation <b>6 marks.</b>

Question Number	Question	
10 (c)	Santander Bank took over Abbey National. Discuss <b>one pricing and one non-pricing</b> strategy that Santander Bank may have then used to attract more customers.	
	Indicative content	Mark
	<p>Identification and explanation of 1 pricing strategy (1 + 1 marks)            Identification and explanation of 1 non-pricing strategy (1 +1 marks)</p> <p>These may include, <b>pricing strategies:</b></p> <ul style="list-style-type: none"> <li>• cheaper borrowing rates,</li> <li>• improved interest rates on savings, accounts, cheaper banking charges.</li> </ul> <p><b>Non pricing strategies:</b></p> <ul style="list-style-type: none"> <li>• longer opening hours,</li> <li>• more branches,</li> <li>• more cash points,</li> <li>• better service,</li> <li>• UK call centres,</li> <li>• better banking offers,</li> <li>• other services such as insurance,</li> <li>• sale of holidays,</li> <li>• sale of electrical items,</li> <li>• internet banking.</li> </ul> <p><b>Evaluation: each point evaluated x 2 marks each</b>            These may include:</p> <ul style="list-style-type: none"> <li>• cost of strategies,</li> <li>• success of strategies,</li> <li>• risks involved,</li> <li>• no guarantee of success,</li> <li>• sunk costs,</li> <li>• may cause price war,</li> <li>• greater competition.</li> </ul>	(8)

Level	Mark	Descriptor
Level 1	1	Identification of a pricing or non-pricing strategy
Level 2	2-5	<b>2 marks</b> for identification of two benefits, <b>2 marks</b> for explanation of each benefit and up to <b>1 mark</b> for evaluation of benefits.
Level 3	6-8	Identification of a pricing and non-pricing strategy ( <b>1 mark each</b> ), explanation of each strategy ( <b>1 mark each</b> ) and up to <b>4 marks</b> for evaluation of both benefits

Question Number	Question	
<b>10 (d)</b> <b>QWC i-iii</b>	Assess the factors which may be considered by the regulatory authorities when deciding whether to give approval for a merger between two banks.	
	Indicative content	Mark
	<p>Discussion of the type of merger - Horizontal <b>(2 marks)</b></p> <p>Explanation of issues that competition authorities might consider e.g. loss of competition - fewer branches open, ability to price out competitors, ability to exploit consumer surplus, <b>(synoptic link to Unit 1 Consumer Surplus)</b> knowing demand is relatively inelastic <b>(synoptic link to Unit 1 Elasticity) (3 issues x 2 marks each)</b></p> <p><b>Evaluation x 8 marks</b> <b>3 x up to 3 marks each (allocated 3+3+2 marks)</b> Evaluation may include:</p> <ul style="list-style-type: none"> <li>• Increase in internet banking may reduce demand for branches - therefore may actually result in efficiency gains that could be passed on to the customer.</li> <li>• Competition in the banking sector was limited in any case.</li> <li>• Consumers have displayed inelastic demand <b>(synoptic link to Unit 1 Elasticity)</b> but with increasing ease with which to switch it may not be possible to exploit consumers in the same way.</li> <li>• Commission ignores factors such as unemployment, lack of trade union support.</li> <li>• Looks at the whole country not regions</li> <li>• Doesn't consider the needs of UK banking to consolidate vis a vis international competition</li> <li>• May not consider whole banking sector - may only look at competition in current account sector which has become more competitive.</li> </ul> <p><b>Quality of written communications will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately.</li> </ul>	<b>(16)</b>

Level	Mark	Descriptor
<b>Level 1</b>	1-4	Discussion of type of merger <b>(2 marks)</b> and identification of issues that competition authorities might consider.
<b>Level 2</b>	5-9	Discussion of type of merger <b>(2 marks)</b> . Explanation of issues that competition authorities might consider <b>(3 issues x 2 marks each)</b> , limited evaluation.
<b>Level 3</b>	10-16	Discussion of type of merger <b>(2 marks)</b> . Explanation of issues that competition authorities might consider <b>(3 issues x 2 marks each)</b> , <b>Evaluation x 8 marks - 3 x up to 3 marks each (allocated 3+3+2 marks.)</b>





## Unit 4: The Global Economy

### Section: A

Question Number	Question	
<b>1 (a)</b> <b>QWC i-iii</b>	'Trading blocs are the most significant factor contributing to globalisation.' To what extent do you agree with this statement?	
	Indicative content	Mark
	<p>Explanation of trading blocs for globalisation - trade creation.</p> <p>Consideration of other factors influencing globalisation:            Reduction in trade barriers - role of WTO            Growth of multinational companies            Improved communications e.g. internet, transport            Capital mobility            Industrialisation of LEDCs e.g. China</p> <p>Evaluation:            Trade diversion resulting from trade blocks            Prioritisation of factors            Significance of each factor            Conclusion</p> <p><b>(Synoptic element: reference to use of Economist's tool-kit in analysis and evaluation and in approach to question)</b></p> <p><b>Quality of written communication will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>To present an argument and conclude on the basis of that argument</li> <li>To organise information clearly and coherently</li> <li>To use economics vocabulary appropriately</li> <li>To use grammar, spelling and punctuation appropriately</li> </ul>	<b>(20)</b>

Level	Mark	Descriptor
<b>Level 1</b>	1-7	Identification of points only
<b>Level 2</b>	8-10	Consideration of one factor with one evaluative point or 2 points with no evaluation
<b>Level 3</b>	11-14	Consideration of 2 factors with one evaluative point or 3 points with no evaluation
<b>Level 4</b>	15-16	Consideration of trading blocs and 2 other factors with one evaluative point
<b>Level 5</b>	17-20	Consideration of trading blocs and 2 other factors with at least two evaluative points

Question Number	Question	
1 (b) QWC i-iii	Evaluate the possible economic effects of the introduction of a single currency by a trading bloc.	
	Indicative content	Mark
	<p>Effects include:</p> <ul style="list-style-type: none"> <li>• Elimination of transactions costs <i>But these are usually only a small proportion of GDP.</i></li> <li>• Price transparency. <i>But price differences are likely to remain because of differences in costs.</i></li> <li>• Easier trading for firms within the trading bloc. <i>But many of the countries with fastest growing exports are not members of trading blocs.</i></li> <li>• Loss of independent monetary policy <i>But greater macroeconomic stability.</i></li> <li>• Loss of exchange rate flexibility against other countries win the bloc, but greater certainty and stability.</li> <li>• Transition costs.</li> </ul> <p>(Synoptic elements: reference to concepts introduced in unit 2 eg monetary policy, exchange rates and use of Economist’s tool-kit in analysis and evaluation and in approach to question)</p> <p><b>Quality of written communication will be assessed in this question based on the candidate’s ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately.</li> </ul>	(30 )

Level	Mark	Descriptor
Level 1	1-11	Identification of points only
Level 2	12-15	2 factors with two evaluative points or 3 factors and 1 evaluative comment
Level 3	15-21	3 factors with two evaluative points
Level 4	22-25	4 factors with two evaluative points
Level 5	26-30	4 factors with at least three evaluative points

Question Number	Question	
<b>2 (a)</b> <b>QWC i-iii</b>	The value of the US dollar has been declining steadily against other currencies since 2002. Examine the possible causes of this decline.	
	<b>Indicative content</b>	<b>Mark</b>
	<p>Factors could include:</p> <ul style="list-style-type: none"> <li>• Persistent current account deficit (in excess of 6% of GDP).</li> <li>• Concerns about other imbalances eg fiscal deficit.</li> <li>• Falling confidence in the US economy eg slowdown in economy partly caused by falling house prices.</li> <li>• Growth of China and other emerging economies.</li> <li>• Expectation of lower interest rates in USA but higher interest rates in euro zone and UK.</li> <li>• US inflation might have been higher than those of major competitors.</li> </ul> <p>Evaluative points could include:</p> <ul style="list-style-type: none"> <li>• Prioritisation of factors discussed.</li> <li>• Slowdown in US economy would help to reduce current account deficit.</li> <li>• Dollar might have been overvalued previously and so this fall was part of a natural correction process.</li> </ul> <p>(synoptic element: reference to exchange rates (Unit 2) and to use of Economist's toolkit in analysis and evaluation and in approach to question)</p> <p><b>Quality of written communication will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	<b>(20)</b>

Level	Mark	Descriptor
<b>Level 1</b>	1-7	Identification of points only
<b>Level 2</b>	8-10	Consideration of one factor with one evaluative point or 2 points with no evaluation
<b>Level 3</b>	11-14	Consideration of 2 factors and one evaluative point or 3 points with no evaluation
<b>Level 4</b>	15-16	Consideration of 3 factors and one evaluative point
<b>Level 5</b>	17-20	Consideration of 3 factors with at least two evaluative points

Question Number	Question	
<b>2 (b)</b> <b>QWC i-iii</b>	Evaluate the economic effects of a significant decline in the value of the US dollar on the world economy.	
	Indicative content	Mark
	<p>Economic effects could include:</p> <ul style="list-style-type: none"> <li>Reduction in US trade deficit/reduction in China's trade surplus - Marshall - Lerner analysis (could be regarded as two points if analysed fully). <i>Could consider short run/long run effects: the J curve.</i></li> <li>Reduction in US demand for imports could cause slowdown in world economic growth or recession and higher unemployment (could be regarded as two points if both growth and unemployment covered fully) <i>But... growth in other countries might prevent this.</i></li> <li>If there is a slowdown in world economy then inflation rates might fall, <i>but... other factors might be more significant e.g. higher energy prices.</i></li> <li>Dollar could lose its status as a reserve currency, <i>but... unlikely in the short term unless confidence is significantly eroded.</i></li> </ul> <p><b>(Synoptic element:</b> reference to macroeconomic objectives (Unit 2) and to use of the Economist's toolkit in analysis and evaluation and in approach to question)</p> <p><b>Quality of written communication will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>To present an argument and conclude on the basis of that argument</li> <li>To organise information clearly and coherently</li> <li>To use economics vocabulary appropriately</li> <li>To use grammar, spelling and punctuation</li> </ul>	<b>(30)</b>

Level	Mark	Descriptor
<b>Level 1</b>	1-11	Identification of points only or for narrow response focusing on one or two points
<b>Level 2</b>	12-15	2 factors with two evaluative points or 3 factors and 1 evaluative comment
<b>Level 3</b>	16-21	3 factors with two evaluative points
<b>Level 4</b>	22-25	4 factors with two evaluative points
<b>Level 5</b>	26-30	4 factors with at least three evaluative points

Question Number	Question	
<b>3 (a)</b> <b>QWC i-iii</b>	Assess the reasons why countries in Asia have been more successful in attracting foreign direct investment than many African countries.	
	<b>Indicative content</b>	<b>Mark</b>
	<p>Factors include:</p> <ul style="list-style-type: none"> <li>• Better infrastructure.</li> <li>• More educated labour force.</li> <li>• Greater openness to trade.</li> <li>• Faster growth rates in Asian countries.</li> <li>• Less corruption.</li> <li>• Expectation of higher profits from investment in Asian countries.</li> <li>• Greater political and economic stability.</li> <li>• Better banking facilities.</li> </ul> <p>Evaluation points include:</p> <ul style="list-style-type: none"> <li>• Relative significance of factors selected.</li> <li>• Comment that Africa is now beginning to attract more FDI.</li> <li>• Differences in African countries ability to attract FDI.</li> </ul> <p><b>(Synoptic element: reference to investment (Unit 2) and use of the Economist’s toolkit in analysis and evaluation and in approach to question)</b></p> <p><b>Quality of written communication will be assessed in this question based on the candidate’s ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	<b>(20)</b>

Level	Mark	Descriptor
<b>Level 1</b>	1-7	Identification of points only
<b>Level 2</b>	8-10	Consideration of 1 factor and one evaluative point or 2 points with no evaluation
<b>Level 3</b>	11-14	Consideration of 2 factors and one evaluative point or 3 points with no evaluation
<b>Level 4</b>	15-16	Consideration of 3 factors and one evaluative point
<b>Level 5</b>	17-20	Consideration of 3 factors with at least two evaluative points

Question Number	Question	
<b>3 (b)</b> <b>QWC i-iii</b>	Evaluate the economic effects of an increase in foreign direct investment on a country of your choice.	
	Indicative content	Mark
	<p>Effects could include:</p> <ul style="list-style-type: none"> <li>• Impact on economic growth via the multiplier effect, <i>but... will depend on the amount of FDI and the size of the multiplier</i></li> <li>• Increase in employment , <i>but... could undermine domestic firms so net effect on employment might be small</i></li> <li>• Improvement in Balance of Payments: initially improvement in financial account following inflow of FDI; later improvement in trade in goods balance, <i>but.. outflow in investment income as profits repatriated to foreign shareholders.</i></li> <li>• Impact on price level - increase in both aggregate demand and aggregate supply.</li> </ul> <p>Candidates who select a developing economy might also discuss the following issues:</p> <ul style="list-style-type: none"> <li>• Helps to fill savings gap <i>but FDI usually results in leakages.</i></li> <li>• Helps to fill the foreign currency gap <i>but leakages (e.g. investment income) would offset this</i></li> <li>• Source of tax revenue which might be used for investment in public services <i>but use of transfer pricing might limit tax revenues on the profits of multinationals.</i></li> <li>• Technology transfer.</li> <li>• Source of management expertise.</li> </ul> <p><b>(Synoptic element:</b> reference to use of concepts such as the multiplier (Unit 2) and to the Economist’s toolkit in analysis and evaluation and in approach to question)</p> <p><b>Quality of written communication will be assessed in this question based on the candidate’s ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument</li> <li>• To organise information clearly and coherently</li> <li>• To use economics vocabulary appropriately</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	<b>(30)</b>

Level	Mark	Descriptor
<b>Level 1</b>	1-11	Identification of points only or for narrow response focusing on one or two points
<b>Level 2</b>	12-15	2 factors with two evaluative points or 3 factors and 1 evaluative comment
<b>Level 3</b>	16-21	3 factors with two evaluative points
<b>Level 4</b>	22-25	4 factors with two evaluative points
<b>Level 5</b>	26-30	4 factors with at least three evaluative points

Question No.	Question	
4 (a)	Outline the role of the World Trade Organisation.	
	Indicative content	Mark
	Aim of WTO to reduce trade barriers. To settle trade disputes. 3 marks for knowledge, 2 for application/example of work of WTO.	(5)

Level	Mark	Descriptor
Level 1	1-3	Up to 3 marks for knowledge of 2 functions of WTO
Level 2	4-5	Up to 3 marks for correct definitions and 2 marks for application/example of work of WTO

Question No.	Question	
4 (b)	With reference to Extract 1, explain two benefits of quotas to industrialised countries with their own textile industries.	
	Indicative content	Mark
	Definition of quotas: fixed limit on the quantity of imports (1 mark). Benefits include: <ul style="list-style-type: none"> <li>• Making textile industries in industrialised countries more competitive.</li> <li>• Distort comparative advantage, so making it profitable for firms to continue the production of textiles in industrialised countries.</li> <li>• Preservation of employment. In turn, reducing costs to governments of higher unemployment.</li> <li>• Smaller deficits on trade in goods deficits.</li> </ul>	(8)

Level	Mark	Descriptor
Level 1	1	Definition of quotas
Level 2	2-5	1 mark for definition of quotas; 2 marks for identification; 2 marks for application
Level 3	6-8	1 mark for definition of quotas; 2 marks for identification; 2 marks for application and 3 marks for analysis

Question No.	Question	
4 (c)	With reference to Extract 1, assess <b>two</b> reasons which might justify protectionist measures against China.	
	Indicative content	Mark
	Consideration of: <ul style="list-style-type: none"> <li>• Loss of jobs in the EU and USA, as well as in poor and middle income countries <i>but... workers might be more productively employed in other countries.</i></li> <li>• China is 'keeping its currency at an artificially low level'. This would give its exports an unfair competitive advantage <i>This argument could justify protection but consumers could enjoy higher consumer surplus from cheaper textiles.</i></li> <li>• China is giving subsidies to its textiles industries. <i>Again consumers in other countries benefit from higher consumer surplus.</i></li> <li>• Could lead to deterioration in trade in goods balances in other countries, <i>but.... in the long run China might buy more exports from other countries as it becomes more prosperous</i></li> <li>• Belief that China is dumping goods, <i>but... difficult to prove this in practice</i></li> </ul>	(10)

Level	Mark	Descriptor
Level 1	1-3	1 mark for identification/knowledge; 2 marks for application
Level 2	4-6	1 mark for identification/knowledge; 2 marks for application; 3 marks for analysis of two issues
Level 3	7-10	1 mark for identification/knowledge; 2 marks for application; 3 marks for analysis of two issues; 4 marks for any two evaluative points (2 + 2; 1 + 3; or 3 + 1 marks)



Question No.	Question	Mark
4 (d)	With the aid of a diagram, assess the effects of tariffs on imports of textiles into the EU.	
	Indicative content	Mark
	<p>Diagram to show a rise in the price of textiles (from P1 to P2) and an increase in domestic production (from A to E). Imports decline from AB to EF.</p> <p>Discussion of:</p> <ul style="list-style-type: none"> <li>• Effects on consumers eg higher prices; loss of consumer surplus.</li> <li>• Effects on producers eg higher domestic output within the EU.</li> <li>• Welfare losses.</li> <li>• Tax revenue to the government.</li> <li>• Implications for the balance of trade.</li> </ul> <p>Evaluative comments might include:</p> <ul style="list-style-type: none"> <li>• Significance of PED/PES for impact on the amount imported impact depends on the level of tariffs.</li> <li>• Short run/long run effects.</li> <li>• Retaliation by countries outside EU.</li> </ul> <p>(Synoptic element: supply and demand analysis including elasticities from Unit 1. Also, the use of the Economist's toolkit in analysis and evaluation and in approach to question)</p>	(12)

Level	Mark	Descriptor
Level 1	1-3	3 marks for diagram
Level 2	4-7	3 marks for diagram; 4 marks for analysis
Level 3	8-12	3 marks for diagram; 4 marks for analysis and 5 marks for any two evaluative points (2 + 3; 3 + 2 marks)

Question No.	Question	
4 (e)	Discuss the factors which might determine the international competitiveness of a country's textile industry.	
	Indicative content	Mark
	Definition of international competitiveness (implicit or explicit) - <b>(1 mark)</b> Factors include: <ul style="list-style-type: none"> <li>• The country's exchange rate.</li> <li>• Productivity.</li> <li>• Relative wage rates and non-wage costs.</li> <li>• Non-price factors e.g. quality, design, availability.</li> <li>• State subsidies/tariffs.</li> <li>• Relative inflation rates.</li> </ul> Evaluative comments might include: <ul style="list-style-type: none"> <li>• Comment on significance of wage costs.</li> <li>• Comment on difference of factors within and outside control of the country.</li> <li>• Prioritisation of factors.</li> <li>• Conclusions drawn from discussion.</li> </ul> <b>(Synoptic element: Use of the Economist's toolkit in analysis and evaluation and in approach to question).</b>	<b>(15)</b>

Level	Mark	Descriptor
Level 3	10-15	2 marks for definition; 2 marks for application; 5 marks for analysis of two issues; 6 marks for any two evaluative points (3 + 3; 4 + 2; or 2 + 4 marks)
Level 2	5-9	2 marks for definition; 2 marks for application; 5 marks for analysis of two issues
Level 1	1-4	2 marks for definition; 2 marks for application

Question No.	Question	
<b>5 (a)</b>	Explain the difference between absolute and relative poverty.	
	Indicative content	Marks
	Absolute poverty is when an individual does not have access to the basic needs of water, food and shelter. Relative poverty occurs when an individual has a lower standard of living than those around him or her.	<b>(5)</b>

Level	Mark	Descriptor
<b>Level 1</b>	1-3	Up to <b>3 marks</b> for correct definitions
<b>Level 2</b>	4-5	Up to <b>3 marks</b> for correct definitions and <b>2 marks</b> for explaining

Question No.	Question	
<b>5 (b)</b>	Explain <b>two</b> problems that individual countries might face following trade liberalisation.	
	Indicative content	Marks
	Problems could include discussion of impact on: <ul style="list-style-type: none"> <li>• Real output/price level: aggregate demand / aggregate supply analysis.</li> <li>• Unemployment.</li> <li>• Balance of Payments.</li> <li>• Income distribution.</li> <li>• Exploitation of raw materials.</li> <li>• FDI.</li> <li>• Value of domestic currency.</li> <li>• Use of non-tariff barriers.</li> </ul>	<b>(8)</b>

Level	Mark	Descriptor
<b>Level 1</b>	1	<b>1 mark</b> for understanding of trade liberalisation
<b>Level 2</b>	2-5	<b>1 mark</b> for understanding of trade liberalisation; <b>2 marks</b> for identification; <b>2 marks</b> for application
<b>Level 3</b>	6-8	<b>1 mark</b> for understanding of trade liberalisation; <b>2 marks</b> for identification; <b>2 marks</b> for application and <b>3 marks</b> for analysis

Question No.	Question	
5(c)	Evaluate <b>two</b> possible reasons why sub-Saharan Africa has experienced slower economic growth than most other developing regions.	
	Indicative content	Marks
	<p>Factors include:</p> <ul style="list-style-type: none"> <li>• Political and social turbulence</li> <li>• AIDS</li> <li>• Role of women</li> <li>• Natural disasters</li> <li>• Corruption</li> <li>• Primary product dependency</li> <li>• Debt burden high</li> <li>• Low savings ratio</li> </ul> <p><i>Evaluative points include:</i></p> <ul style="list-style-type: none"> <li>• <i>Disaggregation: some countries doing better than others.</i></li> <li>• <i>Relative significance of factors identified.</i></li> <li>• <i>Problems of defining economic development.</i></li> </ul>	<b>(10)</b>

Level	Mark	Descriptor
Level 1	1-3	<b>1 mark</b> for identification/knowledge; <b>2 marks</b> for application
Level 2	4-6	<b>1 mark</b> for identification/knowledge; <b>2 marks</b> for application; <b>3 marks</b> for analysis of two issues
Level 3	7-10	<b>1 mark</b> for identification/knowledge; <b>2 marks</b> for application; <b>3 marks</b> for analysis of two issues; <b>4 marks</b> for any two evaluative points ( <b>2 + 2; 1 + 3; or 3 + 1 marks</b> )

Question No.	Question	
5 (d)	Evaluate the economic arguments for cancelling the debts owed by the world's poorest countries.	
	Indicative content	Marks
	<p>Factors include:</p> <ul style="list-style-type: none"> <li>• Opportunity cost of debt repayment</li> <li>• Reduced interest payments</li> <li>• Greater scope for spending on infrastructure; health and education</li> <li>• Promote economic growth</li> <li>• Reduction in absolute poverty</li> <li>• Reduced reliability on aid/loans to sustain economic development</li> </ul> <p><i>Evaluative points could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Loss of fiscal discipline.</i></li> <li>• <i>Creation of dependency culture.</i></li> <li>• <i>Reward for mismanagement/corruption/moral hazard.</i></li> <li>• <i>Sets precedent for the future.</i></li> <li>• <i>Relative effects of countries excluded from the IMF campaign.</i></li> <li>• <i>Reliability/accuracy of the data.</i></li> <li>• <i>Time lag in writing off the debt.</i></li> </ul> <p>(<b>Synoptic element:</b> concept of opportunity cost from unit 1 and economic growth from Unit 2. Also, the use of the Economist's toolkit in analysis and evaluation and in approach to question))</p>	(12)

Level	Mark	Descriptor
Level 1	1-3	3 marks for identification and application
Level 2	4-7	3 marks for identification and application; 4 marks for analysis
Level 3	8-12	3 marks for identification and application; 4 marks for analysis and 5 marks for any two evaluative points (2 + 3; 3 + 2 marks)

Question No.	Question	
5 (e)	Discuss the economic effects on both developed and developing countries of aid being 'doubled to \$100bn a year' (Extract 2, line 21)	
	Indicative content	Marks
	<ul style="list-style-type: none"> <li>• Explanation of types of aid - tied v untied</li> <li>• Reduction in poverty</li> <li>• Impact on trade and globalisation</li> <li>• Impact on income and wealth distribution</li> <li>• Impact on AIDS</li> <li>• Reduce savings gap - Harrod-Domar model</li> <li>• Impact on education and health care</li> <li>• Improvements in infrastructure</li> <li>• Reduce information gaps</li> </ul> <p><i>Evaluative points could include:</i></p> <ul style="list-style-type: none"> <li>• <i>Corruption - misuse of aid.</i></li> <li>• <i>Dependency culture - reducing productivity and efficiency.</i></li> <li>• <i>Problem of tied aid - might not have beneficial effect in the long term.</i></li> <li>• <i>Relative benefits of aid v trade.</i></li> <li>• <i>Opportunity cost associated with repayment of concessional loans e.g. domestic tax increases.</i></li> <li>• <i>Effectiveness of aid in improving economic and social development.</i></li> </ul> <p><b>(Synoptic element: The use of the Economist's toolkit in analysis and evaluation and in approach to question))</b></p>	(15)

Level	Mark	Descriptor
Level 1	1-4	2 marks for definition; 2 marks for application
Level 2	5-9	2 marks for definition; 2 marks for application; 5 marks for analysis of two issues
Level 3	10-15	2 marks for definition; 2 marks for application; 5 marks for analysis of two issues; 6 marks for any two evaluative points (3 + 3; 4 + 2; or 2 + 4 marks)

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