IGCSE Economics NotAS

Section B questions

2020-2018

ON/MJ/FM

All variants

Command word	What it means
Analyse	examine in detail to show meaning, identify elements and the relationship between them
Calculate	work out from given facts, figures or information
Define	give precise meaning
Describe	state the points of a topic / give characteristics and main features
Discuss	write about issue(s) or topic(s) in depth in a structured way
Explain	set out purposes or reasons / make the relationships between things evident / provide why and/or how and support with relevant evidence
Give	produce an answer from a given source or recall/memory
Identify	name/select/recognise
State	express in clear terms

[Ctrl + F] these keywords for the different types of questions.

1. Define trade in goods balance.

Value of exports of goods / revenue earned from exports minus value of imports of goods / expenditure on imports of goods (2).
Exports minus imports (1) of goods / visible items (1).

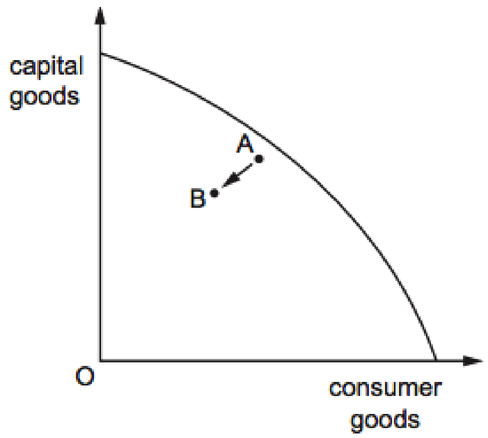
2. Explain two benefits producers may gain from free trade.

Logical explanation which might include:
Availability of larger/global market (1) may increase revenue/profit (1).
Ability to produce on a larger scale / higher output (1) take advantage of economies of scale (1) specialise (1).
Access to cheaper / better quality raw materials / raw materials without tariffs imposed on them (1) lowering costs of production/raising quality of products produced/lowering price (1).
Access to advanced technology/ideas from abroad (1) resulting in improved methods of production/new products (1).
Increased competitive pressure (1) which may raise efficiency (1).

3. Analyse, using a production possibility curve (PPC) diagram, the effect of an increase in unemployment on an economy.

Up to 4 marks for the diagram:
Axes correctly labelled (1).
Curve drawn as a curve or downward sloping line to the axes (1).
Two production points shown – one on or to left of PPC and the other further to the left of the PPC (1).
Movement of the production point inwards indicated by arrow or lettering (1).

Up to 2 marks for coherent analysis which might include:
Unemployment means resources are not used (1) there is inefficiency (1) reduces output/GDP / causes a recession (1).



For analysis, only accept a PPC shifted inwards if logical justification is given i.e. an increase in unemployment may cause some workers to leave the labour force – 'unemployment causing unemployment'.

4. Discuss whether or not an increase in the rate of income tax will reduce inflation.

In assessing each answer, use the table opposite.

Why it might:

- reduce disposable income/purchasing power
- consumer expenditure likely to fall
- investment may fall
- total (aggregate) demand may fall
- demand-pull inflation may decrease
- higher government revenue may increase government spending on supply-side policy measures.

Why it might not:

- workers may seek higher wages
- higher wages may increase costs of production
- cost-push inflation/wage-price spiral may occur
- higher tax revenue may increase government spending
- higher government spending may offset lower consumer expenditure leaving total (aggregate) demand unchanged
- people may be very confident about the future so they cut back on savings rather than spending.

5. Define demerit good.

A product which is more harmful to consumers than they realise / the government considers is more harmful (2).
It is over-consumed / overproduced (1) it creates external costs (1).
A product that is harmful (1).

6. Explain the difference between an extension in demand and an increase in demand.

Logical explanation which might include:
An extension in demand is caused by a change in the price of the product (1) rise in quantity demanded (1) it is shown by a movement along the demand curve (1).
An increase in demand is caused by a change in an influence on demand other than a change in the price of the product / means more is demanded at each and every price (1) example of a cause of an increase in demand e.g. rise in incomes (1) it is shown by a shift in the demand curve (1).

7. Analyse the effects on income distribution and tax revenue of an increase in indirect taxes.

Coherent analysis which might include:
Income is likely to become less evenly distributed (1) indirect taxes are usually regressive (1) taking a larger percentage of income of the poor (1).
Tax revenue likely to rise (1) will rise more on goods with inelastic demand (1) e.g. food (1) may fall if demand falls significantly (1).
If any extra tax revenue is spent on lower income groups (1) e.g. welfare benefits (1) the effect on income distribution is less certain / income may be more evenly distributed (1).
Tax evasion and avoidance is less common in the case of indirect taxes (1) though there may be informal markets (1).

8. Discuss whether or not a government should impose a maximum price on food.

In assessing each answer, use the table opposite.

Why it should:
- may influence price and quantity purchased
- if set below the equilibrium level, will reduce price
- some people will be able to purchase food at a lower price
- may reduce poverty – food is a basic necessity
- may stop monopoly food producers setting high prices.

Why it should not:
- if set above the equilibrium, it will have no effect
- it set below the equilibrium, will result in shortages
- some additional measure will have to be introduced to ration out food
- some foods may be harmful to health and their consumption should be discouraged
- may result in firms making losses and so reducing quality of food or employment of workers
- free market forces may result in a more efficient allocation of resources.

9. State two functions of a commercial bank.

Two from:

- lending
- accepting deposits
- allowing customers to make payments
- looking after valuables
- giving financial advice
- providing insurance
- exchanging foreign currency

10. Explain two reasons why emigration from a country may increase.

Logical explanation which might include:
Rise in unemployment (1) people move abroad in search of jobs (1).
Fall in income (1) seek higher wages abroad (1).
Lower living standards (1) e.g. healthcare may be better abroad / less pollution (1).
Relaxation on immigration controls (1) making it easier to move abroad (1).
Greater social unrest / outbreak of war (1) seek greater security (1).
High inflation at home (1) seek lower cost of living (1).

11. Analyse the possible causes of a rise in the wages of bank workers.

Coherent analysis which might include:
Demand for bank workers may increase (1) due to higher demand for banking / this may result from more people opening bank accounts/using the services of banks (1) may also result from a rise in the productivity of workers (1) more banks competing for the services of bank workers / more competition for workers (1) higher wages paid to retain bank workers (1).
Supply of bank workers may fall (1) qualifications may have been increased (1) skills may have increased / may need to be more skilled as working with more advanced technology (1).
Bank workers may use trade union power (1) collective bargaining and/or industrial action (1).
Banks may have earned large profits (1) may have rewarded workers with bonuses (1) bonuses / high pay may be used to motivate workers (1).
A higher national minimum wage (1) forcing banks to pay some of their staff more (1).
Bank workers may work longer hours / may work overtime (1).
Bank workers may be more experienced (1) more productive / more skilled (1).
Inflation / higher income tax (1) purchasing power will fall unless wages increased (1).

12. Discuss whether or not demand for cars will become more price-elastic in the future.

Why it might:

- may be closer substitutes. Price of public transport and /or quality of public transport may fall making them closer substitutes
- may take up a larger proportion of income. Incomes may fall
- price may rise. Demand becomes more price elastic as price rises
- the number of firms producing certain types of cars may increase
- time will give consumers more opportunity to search out lower prices.

Why it might not:

- may become more of a necessity. People may work further from where they live
- may become easier to postpone purchase. If cars last longer, consumers may be able to delay buying replacements
- people may have become used to driving – habit forming. May be reluctant not to own and drive a car
- price of complements may rise, so that even if price of cars fall, people may not buy more cars.

13. Define wages

A payment/reward (1) to labour/workers (1).

14. Explain two reasons, other than methods of protection, why a country's exports may fall.

Logical explanation which might include:
Lower incomes abroad (1) reduce the ability of foreigners to buy the country's exports / lower demand (1).
Rise in the foreign exchange rate (1) will make exports more expensive (1).
Quality may fall (1) e.g. educational standards may have declined (1).
Price may rise (1) due to inflation/higher costs of production/lower productivity/making exports less competitive (1).
Domestic demand may rise (1) products may be switched from the export to the home market (1).
Lower output (1) reduce the ability of firms to export as many goods and services / result of fewer resources (1).

15. Analyse how a rise in investment could increase a country's economic growth rate.

Coherent analysis which might include:
More investment will increase total (aggregate) demand (1) there will be more capital goods (1) these may be more efficient / embody advanced technology (1) productive capacity will increase / productivity rise (1) costs of production may fall (1) prices may fall (1) quality may rise (1) more products may be demanded by domestic consumers (1) foreign buyers / more exports (1) output may increase (1).
Higher investment may increase employment (1) raise income (1).
Investment in human capital/education/healthcare (1) can raise productivity (1).

16. Discuss whether or not a country should switch from a fixed foreign exchange rate system to a floating foreign exchange rate system.

Why it should:

- the government will not have to devote time and attention to maintaining the exchange rate and so may use policy measures to e.g. reduce inflation
- fewer foreign exchange reserves would have to be kept to maintain the exchange rate. These could be used to stimulate economic activity
- exchange rate may be lower which may increase economic growth, lower unemployment and improve the current account position.

Why it should not:

- a lower exchange rate may cause inflation
- fluctuations in the exchange rate may create uncertainty. This may discourage investment and reduce economic growth
- may discourage MNCs from setting up in the country
- a higher exchange rate could reduce economic growth, employment and harm the current account position.

17. State two components of the current account.

Any two from:

- trade in goods
- trade in services
- primary income
- secondary income

18. Explain why inflation may fall even if there is an increase in total demand.

Logical explanation which might include:
There may have been an increase in total supply (1) which may be greater than the increase in total demand (1).
There could be an improvement in productivity (1) better technology / capital (1).
Costs of production could have gone down (1) e.g. lower taxes / lower costs of raw material, stronger exchange rates (1).

19. Analyse how a country's current account deficit might be reduced if its firms become internationally competitive.

Coherent analysis which might include:
Being internationally competitive e.g. high productivity, low inflation, low exchange rates (max 2) increases production (1) reduces cost of production (1) decreases price of exports (1) increases quality of exports (1) increases demand for exports (1) increases value of exports / net exports (1).
Imports relatively more expensive / other countries products more expensive (1) lower relative quality of imports (1) decreases imports (1).

20. Discuss whether or not lower taxes on firms will be beneficial for an economy.

Why it might be beneficial:

- will increase after tax profits
- increase ability and incentive to invest
- firms may expand output leading to higher employment and economic growth
- higher investment may increase innovation and productivity which may improve the current account
- will reduce cost of production. This may reduce inflation

Why it might not be beneficial:

- firms might not invest more and just keep the profits to themselves
- government will get less revenue from firms, reducing ability to spend to improve the economy
- may attract MNCs which may replace domestic firms
- capital goods may replace labour, causing unemployment
- higher output may result in external costs e.g. pollution.

21. State two sectors, other than the primary sector, in an economy.

Secondary sector (1)
Tertiary sector (1)

22. Explain two possible reasons for a fall in the price of a product such as natural rubber.

Logical explanation which might include:
Decrease in demand for natural rubber (1) emergence of substitutes (1) decrease in future expected price or any other relevant examples (1).

Increase in supply of natural rubber (1) due to increase in number of producers / good yield / relevant example (1).

23. Analyse the influences on spending.

Income (1) higher income increases the ability to spend / increases purchasing power (1).
The rate of interest (1) a change in the rate of interest influences the proportion of income that is spent and saved (1) and affects borrowing (1).
Confidence (1) people spend more when they are optimistic (1) about future income / job security (1).
Wealth (1) people can spend some of their wealth (1) e.g. sell shares (1) use it as collateral to borrow (1).
Inflation (1) spending may fall if prices rise more than money wages (1) spending may rise as people seek to buy products before they increase in price even further (1).
Expansionary fiscal / monetary policy may increase spending (1).

24. Discuss whether or not the growth of the primary sector is beneficial to a country.

Why it is beneficial:

- can increase total output of the economy, increasing economic growth
- can provide employment opportunities that are accessible to all / requires low skill / requires low technology
- could increase standards of living in rural areas
- provide raw materials for secondary sector
- could ensure that country has food security, reduce imports of necessities, if prices of primary sector products are high e.g. high oil price which this could bring huge export revenue to the country. This could reduce current account deficit.

Why it is not beneficial:

- productivity may be low in the primary sector, very low value added
- may be low wages and poor working conditions
- overdependence on primary sector may restrict growth of secondary and tertiary sectors
- some primary industries may be disrupted by weather conditions and natural disasters
- supply and demand are inelastic so there may be considerable price fluctuations
- natural resources e.g. copper may be depleted.

25. Define tariffs.

Tariffs are a tax (1) on imports/exports (1) which increase the price of imported/exported goods (1).

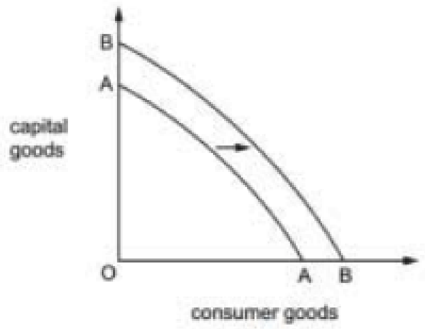
26. Explain two non-tariff methods of protection.

Logical explanation which might include:
Quotas (1) quantitative restriction on the amount of imports that can enter a country (1).
Subsidies (1) grants given to domestic firms to reduce domestic cost of production and reduce demand for imported goods (1).
Embargoes (1) total restriction on a certain product from a certain country (1).

27. Analyse, using a production possibility curve (PPC) diagram, the beneficial effects for a country of the growth of its small and medium-sized firms.

Up to 4 marks for the diagram:
Axes correctly labelled (1).
Initial curve drawn as a curve or downward sloping line to the axes (1).
New curve drawn as a curve or downward sloping line to the axes (1).
Shift to the right indicated by arrow or lettering (1).

Up to 2 marks for coherent analysis which might include:
The growth of its small and medium-sized firms will lead to an increase in the number of firms in the economy (1) this will increase productive potential / increase productive capacity / cause economic growth (1).



Also accept a tilt outward of the new PPC curve.

28. Discuss whether or not increased international trade can promote economic growth.

- increase size of the market for domestically produced goods, increase exports, increase total demand
- firms can specialise and achieve economies of scale, decrease cost of production, increase demand for goods and services produced domestically
- increase competitive pressure (1) making firms more efficient (1)
- increase access to products not available domestically, e.g. raw materials to produce other goods, increase output of an economy (1).

Why it may not:

- Increase amount of imports, decrease total demand of the economy
- domestic firms may not be able to compete causing less revenue, less profits, more unemployment,
- may result in shortages of e.g. rice in the domestic market
- make the economy more subject to sudden changes in demand and supply.

29. State the rewards for labour and capital.

Wages (1) for labour
Interest (1) for capital

30. Explain the two types of poverty.

Logical explanation which might include:
Absolute poverty (1) is when someone cannot afford the basic necessities of life (1) less than $1.90 per day at PPP (1).

Relative poverty (1) is when someone earns less than is needed to participate in the normal activities of society (1) when there is inequality (1).

31. Analyse how firms can benefit from specialisation.

Coherent analysis which might include:
Improve skills of workers (1) save time (1) lead to invention of new technology (1) increase productivity (1) raise quality (1) decrease average cost of production (1) decrease prices (1) increase demand (1) enable advantage to be taken of economies of scale (1) increase profits (1).

32. Discuss whether or not supply-side policy measures can reduce unemployment.

- decrease corporation / profit tax, more profits, more investments, more demand for labour, reduction in cyclical unemployment
- decrease interest rates, more borrowing, more investment, more demand for labour, reduction in cyclical unemployment
- decrease income tax, increase disposable income, more spending / demand for goods and services, more production, increase demand for labour
- government subsidies can encourage firms to expand and take on more workers, reduce cyclical unemployment
- increase spending on education and training, increase skills / productivity of labour, increase demand for labour, decrease structural unemployment.
- provide more information on jobs / job centres, easier for workers to find jobs, decrease frictional unemployment
- reduce unemployment benefit to reduce the time workers are between jobs, decrease frictional unemployment.

Why they cannot:
- may be a time lag
- more investments could lead to increased technological development, less demand for workers
- education programmes not according to market needs

- privatisation could lead to firms cutting amount of workers
- decrease in minimum wage could decrease incentive to work
- may be a lack of total demand.

33. Define microeconomics.

Study/analysis of or focus on individual markets / economic agents e.g. individuals, households, and firms (2).
Study of economics on a small scale, e.g. demand for cars (1).
Demand and supply for individual products/markets (1).

34. Explain two causes of differences in economic development between countries.

Logical explanation which might include:
Resources – land/labour/capital/enterprise (1) affect productive capacity of a country (1).
Income (1) enabling people to consume more goods and services (1).
Productivity (1) making better use of resources (1).
Higher international trade / exports (1) results in higher output (1)
Size of primary sector (1) larger primary sectors may mear lower incomes / hard working conditions (1).
Saving (1) which can influence the proportion of capital goods produced/the extent to which people have a safety net (1).
Investment (1) which may influence economic growth / make work less physically demanding (1).
Education / literacy rates (1) which influence choices/income/health (1).
Healthcare (1) which affects life expectancy / quality of life (1).

35. Analyse how a cut in the interest rate could reduce poverty.

Coherent analysis which might include:
Cost of borrowing will fall / reward from saving will decline (1) increase borrowing / demand for loans (1) consumer spending will increase (1) firms may invest more (1) output may rise (1) unemployed gain jobs / employment may increase (1) incomes may rise / reduction in absolute poverty (1).
The poor who have borrowed in the past (1) will have more money to spend on basic necessities (1) spend on education (1) improve skills (1) get better paid jobs (1) reducing relative poverty (1).
Housing may be cheaper (1) making shelter more accessible (1).
May enable some of the poor to borrow to start up small businesses (1) and earn a higher income (1).
Cheaper for government to borrow (1) enabling it to spend more on education/healthcare (1).

36. Discuss whether or not government intervention will correct the market failure caused by a demerit good.

Why it might:

- tax can be imposed/increased
- this will raise price
- consumers better informed about negative impact
- demand would be expected to contract
- a minimum price could be imposed
- this again would be expected to reduce demand
- restrictions could be imposed on the imports of demerit goods

Why it might not:

- demand may be price inelastic, some demerit goods are addictive
- the government may set a tax too high or too low
- the rich may not be dissuaded by the tax
- producers may not pass on the tax to consumers
- a minimum price set below the equilibrium level would have no effect
- a minimum price could result in a surplus which may put downward pressure on price, encourage producers to charge less than the minimum price

37. Define privatisation.

The sale of state-owned assets / state-owned enterprises / nationalised industries (1) to the private sector / individuals (1).

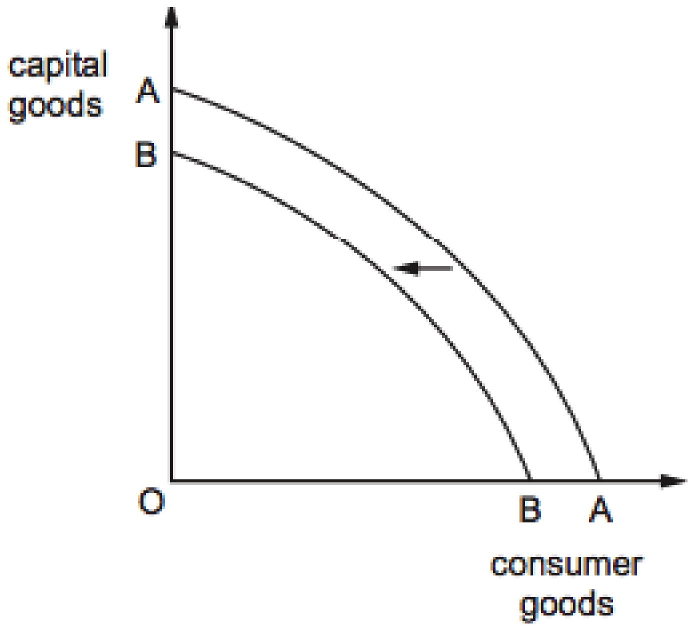
38. Explain two causes of a fall in the birth rate.

Logical explanation which might include:
Rise in the cost of having children (1) e.g. children staying in education for longer (1).
Rise in the education of women (1) may be more likely to enter employment/delay having children (1).
Rise in government provision of state pensions (1) less need for couples to have children to support them in old age (1).
Rise in access to contraceptives (1) making family planning more effective (1).
Improvement in healthcare (1) reducing infant mortality (1).
Increase in state provision of welfare payments (1) reducing the need to have children support parents in old age (1).
Reduction in infant mortality (1) people having fewer children in the expectation more will survive (1).
Ageing population (1) fewer people of child-bearing age (1).
Education (1) e.g. higher cost of having children (1) women may get married later (1).
More women working (1) may delay childbirth (1).
Government policy (1) e.g. placing a limit on number of children (1).

39. Analyse, using a production possibility curve (PPC) diagram, the effects of a decrease in the quantity of capital goods in an economy.

Up to 4 marks for the diagram:
Axes correctly labelled (1).
Initial curve drawn as a curve or downward sloping line to the axes (1).
New curve drawn as a curve or downward sloping line to the axes (1).
Shift to the left / pivot indicated by arrow or lettering (1).

Up to 2 marks for coherent analysis which might include:
Capital goods are a resource / investment used to produce other goods (1).
Fewer capital goods / factors of production reduce potential output / productive capacity (1).



Accept a PPC diagram that shows fewer capital goods and the same quantity of consumer goods.

Accept Good A / Good B labelling on axis.

Note: movement along the existing PPC is incorrect.
So potentially only 2 marks for correctly labelled axes and correct curve.

40. Discuss whether or not a government should allow monopolies.

Why it should:

- monopolies may be able to take advantage of economies of scale
- may be able to experience lower average costs and charge lower prices
- may earn high profits and so be able to spend on investment and research and development
- may be able to produce high quality products
- may be internationally competitive
- maybe nationalised monopolies with welfare objectives

Why it should not:

- maybe market failure/abuse market power
- may charge high prices
- may restrict output
- may become complacent
- may not improve quality

41. Define deregulation.

The removal of rules/regulation (2).
Less government intervention (1) to encourage competition (1).
Actions making it easier for businesses to enter / operate in an industry (1).
Supply-side policy (1) to increase competition (1).

42. Explain two benefits consumers may gain from a market economic system.

Logical explanation which might include:
Sovereignty (1) consumers decide what will be produced (1).
Choice (1) there may be a number of firms producing a product (1).
Low prices (1) competition may mean that firms have to charge low prices to keep their customers (1).
High quality (1) the profit incentive may encourage firms to raise quality to attract more consumers (1).

43. Analyse how education and subsidies can increase a country's economic growth rate.

Education/training may increase qualifications/skills (1) raising the productivity of workers (1) increasing the mobility of workers (1) attracts MNCs (1) reduces unemployment (1) raising the quality (1) and quantity of output (1).
Subsidies will lower firms' costs of production (1) encouraging firms to increase their production (1) increasing supply (1) lowering price (1) a higher output is likely to be bought and sold (1).
Subsidies for consumers e.g. education/health (1) may help in gaining skills/jobs and being more productive (1).

44. Discuss whether or not a reduction in a country's trade protection will reduce its current account surplus.

Why it might:

- lower tariffs will reduce price of imports
- removal of quotas may result in more imports being purchased
- removal of a ban/embargo will permit imports of the product to enter the country
- import expenditure may rise
- higher import expenditure may reduce the gap between export revenue and import expenditure

Why it might not:

- foreign firms may not have the capacity to supply more products
- demand for imports may be price inelastic
- the quality of imports may have fallen
- other countries may also reduce their trade restrictions
- the exchange rate may fall, raising exports and reducing imports
- export revenue may rise to match the higher import expenditure
- may have large surplus on invisibles

45. State two functions, other than issuing banknotes and coins, of a central bank.

Two from:

- manages monetary policy / sets the rate of interest
- manages the national debt
- controls the banking system
- banker to commercial banks
- banker to the government
- lender of last resort
- looks after reserves of gold and foreign currency

46. Explain two reasons why workers in the tertiary sector may be paid more than workers in the primary sector.

Logical explanation which might include:
Higher demand (1) due to e.g. higher productivity / more profitable / expansion of tertiary industries (1).
Lower supply (1) due to e.g. higher qualifications/skills/education needed (1).
Stronger bargaining power (1) due to stronger trade unions / professional organisations (1). Primary sector workers can be replaced by capital equipment (1) so bargaining strength is weak (1).
More favoured by government policy (1) e.g. increased government spending on education/healthcare (1).
Tertiary sector workers are mainly found in developed countries where wages / cost of living is generally high (1) whereas primary sector workers are mainly found in undeveloped countries were wages / cost of living are generally low (1).
Lower value of goods and services being provided in primary sector (1) lower pay for primary sector workers (1).

47. Analyse the advantages for firms of using division of labour.

Coherent analysis which might include:
Division of labour involves workers specialising (1) this can increase output / increase productivity (1) costs of production may be reduced (1) e.g. lower costs of training (1) e.g. less equipment needed (1).
Specialisation can increase quality (1) lower costs can enable to charge lower prices (1) demand may rise (1) revenue/profits may increase (1).

48. Discuss whether or not deflation will benefit an economy.

Why it might:

- if due to lower costs of production, may be more internationally competitive
- improve the current account position
- may increase purchasing power if incomes do not fall
- may raise living standards
- may increase economic growth and employment

Why it might not:

- if due to lower total demand may result in a recession
- consumers may postpone purchases
- investment may fall
- firms may reduce output, reducing demand for raw materials
- unemployment may rise

49. Identify two reasons why people are living longer.

- better healthcare
- improved nutrition
- better housing
- better living standards
- higher incomes

50. Explain two reasons why net immigration may increase the standard of living in a country.

May increase the size of the labour force (1) increase the number of goods and services available / increase output / increase GDP / economic growth (1).
May bring in new skills (1) raise productivity (1) increase the quality of products produced (1).
Fill jobs that local workers do not want to do (1) reduce shortages (1).
Fill jobs that local workers do not have the qualifications to do (1) reduce shortages (1).
Increase total (aggregate) demand (1) which will encourage firms to increase their output (1).
Make better use of other resources (1) if the country lacks labour / is underpopulated (1).
Increase tax revenue (1) enabling government to spend more on e.g. education (1).
Immigrants may set up firms (1) creating jobs / reducing unemployment (1) / purchasing power (1).
May lower costs of production (1) make products more affordable (1).

51. Analyse how fiscal policy could be used to stop a recession

The government could cut taxes (1) this could raise disposable income / purchasing power (1) which may increase consumer spending (1) cuts in corporate tax may provide more funds for firms (1) raise investment (1) encourage firms to expand their output (1) increase employment / reduce unemployment (1).
A government could increase its own spending (1) example e.g. healthcare (1) this would increase total (aggregate) demand (1) encouraging an increase in output (1).
Spending on infrastructure (1) may reduce firms costs and so encourage higher output (1).

52. Discuss whether or not low-income countries have a faster rate of population growth than high-income countries.

Up to 5 marks for why some do:
Some have a high birth rate (1) reasons e.g. low number of women working, (1) need for children to support parents in old age (1) lack of education (1) falling death rate (1) natural increase (1) due to improved healthcare (1) rise in incomes (1).

Up to 5 marks for why some do not:
Some high-income countries experience a high rate of net immigration (1) factors attracting immigrants e.g. job opportunities, high income (2).
Some low-income countries experience net emigration (1).
Some low-income countries experience natural disasters and wars (1) poor health care (1) which increase the death rate (1).
Some high-income countries are experiencing a fall in the death rate (1) causes e.g. improved living standards, advances in medicines (2) although birth rates falling (1) governments may provide incentives to try to raise the birth rate (1) including financial aid / free child care (1).

53. Identify two ways a government could encourage saving.

- raise the rate of interest
- introduce tax-free saving schemes
- provide information / education about the benefits of saving
- introduce compulsory saving schemes
- government measure that can increase income e.g. lower taxes

54. Explain two reasons why productivity may increase.

Improvements in education and training (1) would increase the skills of workers (1).
More capital equipment / investment (1) which may increase the speed / accuracy at which workers work / more efficient machinery (1).
Increase in wages (1) which will motivate workers (1).
Lower working hours (1) workers less tired (1).
Better working conditions (1) less stressed (1).
Better weather / improvements in the type of crops grown / better feed for animals (1) which can increase agricultural output / which may result from research and development (1).
Immigration of workers (1) with better skills (1).
Better healthcare (1) workers fitter (1).
Successful supply-side policy measure (1) e.g. spending on infrastructure (1).
Specialisation (1) workers concentrating on particular tasks may produce products more quickly / efficiently (1).

55. Analyse how an increase in investment could influence inflation.

Higher investment will mean higher spending on capital goods (1) it could increase total (aggregate) demand (1) this could increase demand-pull inflation (1) if total (aggregate) demand exceeds total (aggregate) supply (1).
May increase demand for imported capital goods / raw materials (1) causing imported / cost-push inflation (1).
Higher total (aggregate) demand could increase employment / decrease unemployment (1) which could increase total (aggregate) demand further (1).
In short run may raise costs of production (purchase of machines) (1) causing cost-push inflation (1).
In the long run it could increase output (1) may introduce advances in technology (1) increase efficiency / productivity (1) it could reduce costs of production (1) reducing cost-push inflation (1).
Investment in human capital (1) raising workers' skills (1).

56. Discuss whether or not older workers are paid more than young workers.

Up to 5 marks for why they might be:
They have more experience (1) they are likely to have received more training (1) they may have higher productivity (1) more skilled (1) more reliable / make fewer mistakes (1) in higher demand (1) lower supply (1).
They may have been with the same employer for some time (1) and may have been promoted (1).
Some older workers may be rewarded for staying with the same employer / young workers may be at start of career (1) be paid a loyalty bonus (1).
In some countries, the minimum wage may rise with age (1).

Up to 5 marks for why they might not be:
Some older workers in jobs requiring physical strength (1) may be less fit / young workers may be fitter (1).
Older workers may be less occupationally mobile (1) geographically immobile (1) and so may not move to gain higher wages (1).
Young workers may be more up to date with advances in technology / new methods / new ideas (1) their skills may be in higher demand (1).
Young workers may be in expanding industries (1).
Young workers may work more hours (1) may be better educated / more qualified (1).

57. Identify two components of the HDI.

- GDP (GNI) per head / income per head / average income
- education
- life expectancy

58. Explain how the proportion of a country's resources devoted to the primary, secondary and tertiary sectors change as its economy develops.

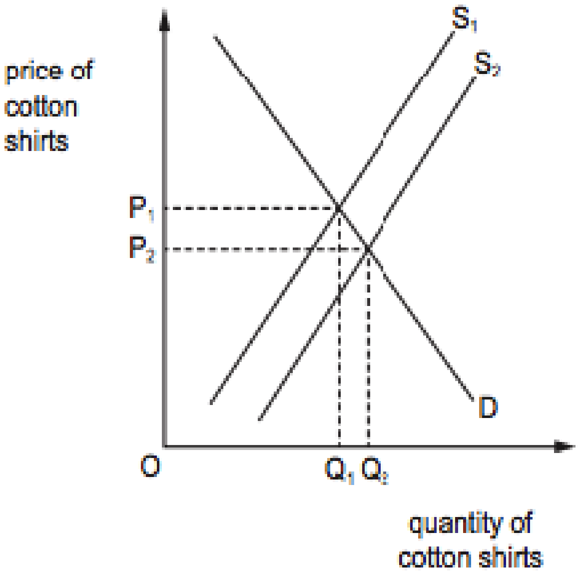
A smaller proportion of resources are likely to be devoted to the primary sector (1) increases in technology / productivity / education requires fewer resources / resources move to more financially rewarding uses / use of more machinery (1).
A greater proportion of resources are devoted to manufacturing at first (1) and then a smaller proportion (1) the manufacturing sector becomes more efficient (1).
The service sector continues to grow (1) in developed economies, most labour is employed in the service sector (1).
Some developing countries' tertiary sector has grown faster than secondary sector – jumped a stage (1).

59. Analyse, using a demand and supply diagram, how a fall in the price of cotton would affect the market for cotton shirts.

Up to 4 marks for the diagram:
Axes correctly labelled – price and quantity or P and Q (1).
Demand and supply curves correctly labelled (1).
Supply curve shifted to the right (1).
Equilibriums – shown by lines or e.g. E1 and E2 (1).

Up to 2 marks for written analysis:
A fall in the price of cotton will reduce the cost of producing cotton shirts (1) price will fall / quantity will rise (1).

Do not reward analysis marks for description of diagram e.g. quantity changes from Q1 to Q2.



60. Discuss whether or not an increase in the size of a country's gold mining industry will benefit an economy.

Up to 5 marks for why it might:
It may provide more jobs (1) reduce unemployment (1).
It may increase output / cause economic growth (1) increase wages (1) increase living standards (1).
Some of the gold may be exported (1) improve the current account position (1).
The industry may experience (external) economies of scale (1) lower average cost (1) example of an external economy (1).
It will be more beneficial if world demand is increasing (1).
May attract multinational companies to set up in the country (1).
Tax revenue may increase (1) enabling government to spend more on e.g. infrastructure (1).

Up to 5 marks for why it might not:
A rise in the supply of gold may reduce its price (1) reduce revenue (1) reduce exports (1).
External costs may be created (1) damage to the natural environment / pollution (1).
The industry may experience (external) diseconomies of scale (1) higher average cost (1) example of an external economy (1).
Mining is a dangerous occupation (1) wages may be low as primary sector (1) jobs may be unskilled (1).
Resource of gold may be depleted (1) stopping future generations being able to take advantage of them (1).
It will be less beneficial if other gold producing countries are increasing their output (1).

61. Identify two examples of land used in growing agricultural crops.

- soil
- water
- natural fertiliser
- seeds
- weather

62. Explain why the concept of price elasticity of supply (PES) may be useful to a government in deciding whether to subsidise the production of a product.

A subsidy is aimed at increasing supply / lowering price (1).
If supply is elastic, supply will change by a greater (1) percentage (1) than price. Should subsidise production of the product (1).
If supply is inelastic, supply will change by a smaller (1) percentage (1) than price. Should not subsidise production of the product (1).

63. Analyse why the demand for a product may be higher in one country than in another country.

Incomes may be higher (1) allowing people to buy more of the product (1).
There may be a larger population (1) more potential buyers (1).
The product may be more to the taste of people in that country (1) example e.g. falafel is popular in the middle east (1).
The product may be more heavily advertised (1) which may increase the attractiveness of the product (1).
Price may be lower (1) due to lower costs of production / government subsidy / lower (indirect) taxes (1).
Price of substitutes may be higher (1) example (1).
Credit may be more available / interest rate lower (1) making it easier for people to borrow to buy the product (1).

64. Discuss whether or not the government should influence the production of basic food items, such as bread or rice.

Up to 5 marks for why it should:
The poor may spend a higher proportion of their income on food (1) a subsidy cn food (1) may reduce poverty (1) lower indirect tax may reduce poverty (1) lower price (1) basic food items / bread / rice may be regarded to be a basic necessity (1)
There may be market failure (1) bread may be overconsumed (1) this may cause obesity (1) a tax will raise price (1) this may discourage demand for basic food items / bread / rice (1) reduce obesity (1) it may also reduce wastage (1).
Regulaticn may be needed (1) to ensure the basic food / bread / rice is produced under clean conditions / with safe ingredients (1).
Basic food items / bread / rice may be produced by a monopoly (1) which could use its power to restrict supply (1) push up price (1) regulation may be need to prevent this (1).
Demand for basic food items / bread / rice may be inelastic (1) firms may take advantage of this to push up price (1).

Up to 5 marks for why it should not:
Market forces may produce an efficient output (1) the profit motive (1) may encourage producers to respond to changes in consumer demand (1) surpluses and shortages will be eliminated by changes in prices (1).
There may be a high level of competition in the industry (1) encouraging producers to make basic food items / bread / rice of a high quality (1).
An indirect tax will be regressive (1) fall more heavily on the poor (1).
A subsidy will involve an opportunity cost (1) example (1).
Reducing an indirect tax will lower tax revenue (1) lowering government's ability to spend on e.g. healthcare (1).
Government discouragement of production of basic items may result in more being imported (1) which will harm the balance of payments (1).

65. Identify the difference between an export and an import.

An export is sold to other countries / outflow of goods and services in exchange for money / credit item in the balance of payments (1) an import is purchased from other countries / inflow of goods and services in exchange for money / debit item in the balance of payments (1).

66. Explain how a rise in the income of its main trading partners may affect a country's trade in goods balance.

A rise in income abroad will increase the countries' ability to purchase products (1) demand for this country's exports may rise (1) particularly luxury products / products without domestic substitutes (1) exports are a credit item in the trade in goods balance (1) the trade in goods balance may improve (1) may move from a deficit to a surplus / any deficit may be reduced / any surplus may be increased (1).
The rise in income may be the result of the countries selling more goods to this country (1) this may increase the country's imports (1) imports are a debit term (1) the trade in goods balance may move from a surplus to deficit / any deficit may become larger / any surplus may get smaller (1).

67. Analyse how a rise in a country's foreign exchange rate may affect its unemployment rate.

A rise in the exchange rate will make exports more expensive (1) imports cheaper (1) demand for exports may fall / export revenue may decrease (1) demand for imports may rise / import expenditure may rise (1) net exports may fall (1) total (aggregate) demand may fall (1) output may decline (1) demand for labour may fall (1) unemployment may rise (1) cyclical unemployment (1).

68. Discuss whether or not a government should subsidise its exports.

Up to 5 marks for why it should:
A subsidy would lower costs of production (1) lower the price of exports (1) this may make them more internationally competitive (1).
Some industries producing exports may be infant industries (1) may need support before advantage can be taken of economics of scale (1).
Exports may rise (1) this may improve the current account / trade in goods and services balance (1) raise GDP / increase economic growth (1) increase employment / lower unemployment (1).

Up to 5 marks for why it should not:
Some domestic firms may already be price competitive (1) and so do not need a subsidy (1).
The subsidy may encourage some domestic firms to become inefficient (1) not cutting their costs (1) and improving the quality of their output (1).
It may be regarded to be a form of trade protection (1) other countries may retaliate (1) so exports may not increase (1).
There will be an opportunity cost involved (1) example (1).

69. Identify two characteristics of perfect competition.

- many buyers
- many sellers
- no barriers to entry (and exit)
- (firms are) price takers
- Identical / homogeneous product
- no attachment between buyers and sellers
- perfect knowledge

70. Explain two goals a business organisation may have.

Profit maximisation (1) making as much profit as possible / increasing the gap between revenue and cost / rewarding entrepreneurs (1).
Growth / expansion (1) increasing the size of the firm by e.g. merging / seeking to gain market power (1) to take advantage of economies of scale (1).
Survival (1) during difficult times such as recession / when a firm is first established the aim may just be to stay in the market (1).
Profit satisficing (1) achieving enough profit to keep shareholders' happy while following other objectives (1).
Social welfare (1) business organisations operating in the public sector may e.g. be concerned about the environment / charging a low price to help the poor (1).

71. Analyse the main reasons for the differences in the size of firms.

Type of business organisation (1) state-owned enterprises and multinational companies operate on a larger scale than sole traders (1).
Size of market (1) the market for some products is large / expanding (1) example (1) while others are declining (1) example (1).
Some firms have more access to finance (1) public limited companies can sell shares (1) sole traders cannot (1).
Some firms grow through merging (1) type of merger e.g. horizontal merger (1).
Motives of owners (1) e.g. some prefer the firm to remain small so that they can retain control / ownership (1).
Some firms may be subsidised (1) which may encourage them to produce a higher output (1).
Some firms may be more profitable (1) can reinvest profits / internal growth (1).
Length of time in the market (1) longer there, more time to grow (1).
Some firms may be able to take advantage of economies of scale (1) example of an economy (1).
Some firms may experience diseconomies of scale (1) example (1).
Type of product / capital v. labour-intensive (1) e.g. aircraft have to be produced on a large scale (1).

72. Discuss whether or not the use of supply-side policy measures by a government will reduce firms' average costs of production.

Up to 5 marks for why they might:
Education and training (1) should increase labour productivity (1) this could reduce labour costs (1).
A cut in income tax (1) may reduce upward pressure on wages (1).
A cut in indirect taxes (1).
Privatisation (1) may make firms more efficient (1) especially if there is competition in the market (1).
Deregulation (1) may reduce the cost of complying with rules and regulations (1).
Subsidies (1) may enable firms to buy more efficient machinery (1) train workers (1) may be able to take advantage of economies of scale (1).
Remove tariffs (1) enable firms to get raw materials at lower prices (1).
Spending on infrastructure (1) reducing transport costs (1).

Up to 5 marks for why they might not:
Education and training may not be in the areas in demand (1) may not increase workers' skills (1) some workers who are educated / trained may emigrate (1).
Wages of workers may rise by more than productivity (1) increasing labour costs (1).
Privatised firms may become private sector monopolies (1) this will reduce pressure on them to keep costs down (1).
Subsidies may be given to reduce unemployment / maintain employment (1) additional workers may be less productive (1) may experience diseconomies (1).
There may be corruption (1).

73. Define industry.

Firms (1) that produce the same product (1) example (1)

74. Explain two types of integration (merger).

- horizontal integration (1) firms from same industry and same level of production integrate (1)
- vertical integration (1) firms from same industry but different levels of production integrate (1)
- conglomerate integration (1) firms from different industries integrate (1)

75. Analyse the advantages that an MNC has over a firm which only produces domestically.

Set up in economies where labour costs are less (1) and raw material costs are cheaper (1) which can give them cost advantage in the international markets (1).
Greater market (1) easier access to foreign markets (1) greater profits (1) fewer trade barriers (1) production set up in countries which have lots of favourable trade agreements (1) bigger output (1) economies of scale (1).
Reduction in risk (1) diversified markets (1).
Locate operations near the potential market (1) which results in lower transportation cost (1).
Wider access to more skilled workers (1) more productive (1).

76. Discuss whether or not an economy benefits from firms which are monopolies.

Up to 5 marks for how it might:
Monopolies can gain more profits (1) they will be able to reinvest more (1) more choices from the company (1) total demand increases (1) economic growth (1) expand production (1) employ more workers (1) unemployment decreases (1) more R&D (1) more innovation (1) higher quality (1) more productivity (1) more exports (1) improved current account position (1).

Up to 5 marks for how it might not:
Lack of competition (1) complacency (1) less productivity (1) less innovation (1) price is higher (1) inflation (1) exploitation of consumers (1) less choice (1) lower quality (1).

77. Identify one example of a direct tax and one example of an indirect tax.

- to increase output (1) capital more efficient/productive (1)
- to reduce costs (1) labour costs becoming relatively higher than machines (1) increasing profits (1)
- may be able to take advantage of technical economies of scale (1) specialist capital may become viable for a large firm (1)

78. Explain two reasons why a firm may become more capital intensive as it grows.

- to increase output (1) capital more efficient/productive (1)
- to reduce costs (1) labour costs becoming relatively higher than machines (1) increasing profits (1)
- may be able to take advantage of technical economies of scale (1) specialist capital may become viable for a large firm (1)

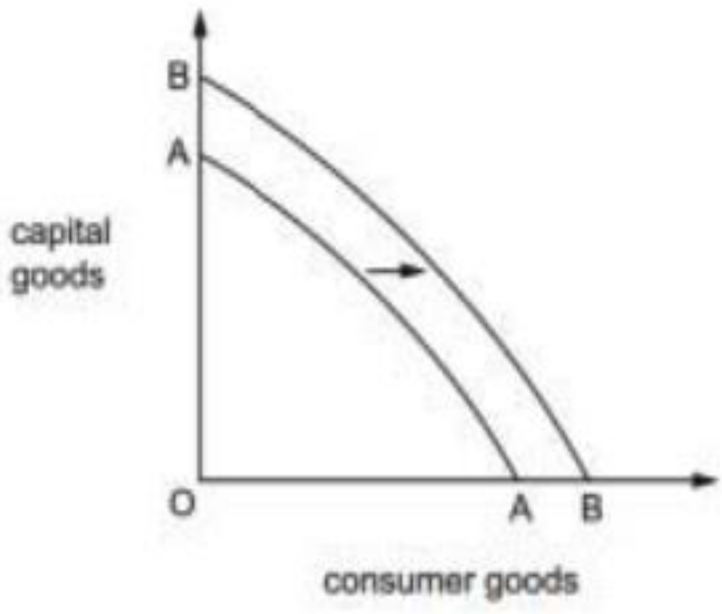
79. Analyse, using a production possibility curve (PPC) diagram, the possible effects of faster internet speeds for economic growth.

Up to 4 marks for the diagram:

- axes correctly labelled in terms of two different products or types of products (1)
- the curve or downward sloping line is drawn to the axes (1)
- second curve or downward sloping line is drawn to the axes (1)
- an indication either by labelling or an arrow that the curve has shifted outwards / right (1)

Up to 2 marks for written analysis:

Faster internet speed increases productive capacity / the maximum quantity of products that can be produced within a certain time period (1) better communication infrastructure (1) e.g. labour can work faster, capital is better (1) lower costs of production (1) encourage more investments therefore increase financial capital (1) increased productive capacity results in (potential) economic growth / cause economic growth (1).



80. Discuss whether or not an economy would benefit from less government regulation.

Up to 5 marks why it might:
More freedom (1) less red tape / bureaucracy (1) easier to set up new firms (1) more competition (1) decrease cost of production (1) decrease price (1) including exports (1) increase quantity demanded (1) increase total revenue (1) increase profits (1) more investments (1) increase demand for labour (1) less unemployment (1) decrease current account deficit (1) increase aggregate demand (1) increase economic growth (1).
More control over prices (1) resulting from removal of e.g. a maximum price (1).

Up to 5 marks why it might not:
Less labour regulations would reduce job security (1) more exploitation of workers (1) e.g lower wages / longer working hours (1) more inequality (1).
Less environmental regulations would increase pollution (1) e.g. air pollution / water pollution (1) health standards of society reduces (1)
Less antitrust/anticompetitive regulations will create monopolies (1) small firms can't compete (1) higher prices (1).
Less protection of domestic firms from e.g. embargo (1) domestic firms may go out of business (1).
Discourage consumption of harmful products (1) e.g. smoking ban (1).
External costs may be ignored (1) e.g. air pollution, noise (1).
It may mean that there is less consumption of beneficial (merit) goods (1) e.g compulsory state education (1)

81. Identify two non-wage factors that could affect an individual's choice of occupation.

- opportunity for promotion
- job security
- satisfactory work
- varied work
- pleasant working conditions
- fringe benefits
- location
- danger

82. Explain two causes of inflation.

- demand-pull inflation (1) increase in *total* demand/ lower interest rate / increase business confidence / increase consumer confidence / depreciation of the currency / lower income tax / lower cost of borrowing / increase disposable income / increase exports (1) increase in money supply (1)

- cost-push / increase in costs (1) increase price of commodities / increase cost of production / depreciation of the currency / increase indirect taxes (1)

83. Analyse the impact of strikes on an economy.

Disrupted production (1) loss of output (1) decreased productivity (1) less economic growth (1) increased cost of firms (1) reduced profits (1) rising prices / inflation (1) unemployment (1).
Better working conditions of the workers (1) higher wages (1).
Exports decreasing (1) increase current account deficit / decrease current account surplus (1).
Less investment by MNCs (1).
There may be capital investment to replace workers (1).

84. Discuss whether or not an increase in wages will reduce a firm's profit.

Up to 5 marks for why it might:
Higher wages will mean a higher wage bill (1) if output does not increase by more than wages, labour costs per unit will increase (1) costs of production will increase (1) profit is revenue minus costs (1) with higher costs and the same revenue, profit will fall (1).
Prices will rise (1) if demand is elastic, revenue will fall (1)

Up to 5 marks for why it might not:
Paying higher wages may prevent strikes (1) this can reduce costs of production (1).
Higher wages may motivate workers (1) this can increase productivity (1) reduce costs of production (1).
Higher wages may make it easier to recruit skilled workers (1) this will raise productivity (1) reduce costs of production (1) increase profits (1)
Other costs may be falling (1) e.g. rent, corporation tax (1).
Demand for the firm's products may be increasing (1) this will raise revenue (1).
Higher wages may be paid to a smaller labour force (1) reducing the wage bill (1).
Replace workers with machines (1) may leave costs unchanged (1).

85. Define monetary policy

Policy to control the supply of money / demand-side policy (1) by changing interest rates / influencing the price of money (1) exchange rates / Quantitative Easing (1).

86. Explain two functions of money

- medium of exchange (1) avoids double coincidence of wants needed in barter/enables people to buy and sell products (1)
- unit of account / measure of value (1) easy to compare value of products / putting a value on products (1)
- store of value (1) for savings / future consumption / will not lose value (1)
- standard of deferred payment (1) credit / instalments/enable people to borrow and lend (1)

87. Analyse the consequences of an appreciating currency on the current account of the balance of payments of a country

An appreciation in the exchange rate means a rise in the value of the currency (1) higher export prices (1) lower import prices (1) increase quantity demand for imports (1) decrease quantity demand for exports (1) increase value of imports (1) decrease value of exports (1) may reduce net exports (1) current account deficit increases / current account surplus decreases (1).

88. Discuss whether or not a reduction in taxes is beneficial for an economy.

Up to 5 marks for why it is:
Reduction in taxes will attract investments (1) this creates new jobs (1) this could also improve the productivity of the economy (1) as there might be investments in R&D / technology (1) creating economic growth (1)
Cut in income tax will increase disposable income (1) increase total demand (1) lower unemployment (1)
Cut in corporation tax/indirect tax (1) may reduce costs of production (1) inflation decreases (1).
Cut in tariffs will increase competition (1) improve e.g. product quality (1).

Up to 5 marks for why it is not:
Decreased government revenue (1) budget deficit (1) government can't spend on e.g. infrastructure (1) opportunity cost (1) foreign investment might increase the value of the currency further (1) exports become uncompetitive (1).
Reduction in indirect tax (1) may increase consumption of harmful products/example (1) may reduce people's health (1).
Reduction in tariffs may e.g. cause infant industries to go out of business (1) increasing unemployment (1).
An increase in total (aggregate) demand may cause inflation (1)

89. Define Gross Domestic Product.

GDP measures the (total) output/income/expenditure (1) of a country/economy (1).

90. Explain two ways in which more affordable medicines can improve standards of living.

- more people can have medicines (1) improve health (1) raise productivity / enable people to work / not off work sick (1)
- different choice of medicines (1) consumers can find what suits them best (1)
- hospitals will have more medicines (1) easier to treat those who are ill/reduce death rate (1)
- less spent on healthcare (1) can spend more on other things that can improve standard of living such as education, holidays (1)
- higher productivity (1) higher incomes (1)

91. Analyse how investment in research and development can help a firm to grow in size.

More innovation (1) e.g. Faster machines (1) increase productivity (1) decrease cost of production (1) decrease price of products (1) increase demand (1) increase market share (1) increase profits (1) more reinvestments (1).

New products produced (1) larger exports (1) enter new markets (1) at start no direct competition (1) may be high demand (1).
More skilled workers needed (1) creating a bigger workforce (1)
Provide information (1) influence what is produced (1).

92. Discuss whether or not a reduction in imports is beneficial to an economy.

Up to 5 marks for why it might be:
Reduction in imports may improve the trade in goods / trade in goods and services balance (1) this will improve the current account position / reduce a current account deficit (1) this may reduce a country's debts (1) avoid downward pressure on the exchange rate (1).
Spending on imports may be replaced by spending on domestically produced products (1) this would increase the country's output / cause economic growth (1) this would increase demand for labour (1) raise employment / reduce unemployment (1) increase incomes and living standards (1).
Fewer imports may enable infant industries to grow (1) may protect declining strategic industries (1).
May prevent dumping (1) explanation of what is meant by dumping (1)
Imports may be harmful products (1) might affect people's health (1).

Up to 5 marks for why it might not be:
Imports of capital goods / raw materials may decline (1) these might be cheaper / lower quality than domestically produced capital goods and/or raw materials (1) this will raise costs of production (1) make the country's products less internationally competitive (1) lower output/reduce economic growth (1) worsen the current account position (1) raise unemployment (1).
Fewer imports may reduce choice (1) reduce competition (1) may raise prices (1) lower quality of people's lives (1).
Exports may be falling by more than imports (1) so current account position may be worsening (1).
Quantity of imports may be falling but value of imports may be rising (1).

If the reduction is caused by protectionist measures (1) this would reduce benefits of free trade (1).
Loss of tariff revenue (1) may be a major source of tax revenue/reduce amount that can be spent on e.g. education (1).
Imports may be of beneficial products (1) not produced in the country (1).

93. Define choice and provide an example.

Two or more different alternatives that an economic agent may have OR the idea of sacrifice and opportunity cost (1) different coloured bicycle helmets / any example (1).

94. Explain how the CPI is calculated.

CPI uses a basket of goods and services (1) weighted to account for the proportion of income (1) spent by the average household (1) found in a survey (1) uses a base year (1) for comparison (1) prices around the country surveyed (1) various types of firms / sources e.g. physical shops and also online (1) weights multiplied by price changes (1).

95. Analyse the possible reasons for the increase in global demand for bicycle helmets.

Increase in popularity of cycling (1) helmets are complements to bicycles (1) quantity demanded for bicycles increasing would increase the demand for helmets (1).
Increase in environmental awareness (1) less driving (1) more bicycles (1) thus, more demand for bicycle helmets (1).
Increase in health and safety awareness (1) dangers of cycling (1) increased awareness of benefits of helmets (1).
Increase in income (1) bicycle helmet is normal good (1) YED positive (1).
Increase subsidies for bicycles (1) decrease price of bicycles (1).
Increase demand for bicycles (1) increase demand for bicycle helmets
Increase in population (1).
Reduction in price of helmets (1).

96. Discuss whether or not increasing sales of a product will be beneficial to a firm.

Up to 5 marks why it will be:
Increase sales revenue/income (1) increase profits (1) allowing firm to reinvest (1) into R&D (1) employ more labour (1) making new products (1) better quality products (1) profits increase even more (1).
Revenue may increase if PED is elastic (1) as demand will rise by a greater proportion than price (1).
Economies of scale (1) as output increases and average cost falls (1) efficiency arising from bulk buying / lower interest rates / indivisibility / division of labour (1).

Up to 5 marks why it will not be:
Price might be lower (1) revenue is lower (1) profit is lower (1) sales of product increase but sales of other products decrease (1) not enough to offset each other (1).
Extra sales only achieved through higher costs of production (1) e.g. advertising (1).
Diseconomies of scale (1) increase output and average costs increases (1) due to control and coordination problems (1).

97. Define tertiary sector and give an example of an industry operating in the tertiary sector.

Services (1) e.g. banking (1).

98. Explain two reasons why farm workers may be low paid.

- high supply / easily replaced / lower productivity / labour intensive / low value products (1) low skills/qualifications required (1).
- low demand (1) can be replaced by capital equipment (1).
- low bargaining strength (1) weak trade unions/low trade union membership (1)

99. Analyse how lower unemployment may cause inflation.

- More people in work (1) incomes may rise (1) as more people are earning wages / higher purchasing power (1) this could increase spending (1) which may increase total (aggregate) demand (1) without a rise in output / supply (1) causing demand-pull inflation (1).
- There may be a shortage of workers/increased competition for workers (1) wages may be raised (1) to attract workers (1) this increases the average cost of production (1) firms raise prices to maintain profit margins (1) causing cost-push inflation (1).

100. Discuss whether or not a country with high wage rates will have a high unemployment rate.

Up to 5 marks for why it might:

- High wages may mean high cost of production (1) this may mean higher prices / inflation (1) international competitiveness may be low (1) exports may fall (1) imports may rise (1) net exports may fall (1) total (aggregate) demand may fall (1) causing cyclical unemployment / firms may lay off workers (1).
- May encourage capital intensive production (1) particular industries may be driven out of business by foreign competition (1) causing structural unemployment (1).

Up to 5 marks for why it might not:

- High wages may motivate workers to work harder (1) making them feel appreciated (1) causing productivity to be high (1) resulting in high demand for labour (1).
- Workers may be working with high value capital equipment (1) keeping cost per unit low (1).
- High wages can mean high consumer spending (1) so total (aggregate) demand may be high (1) resulting in higher demand for workers (1).
- Wages may rise above benefits (1) leading to less voluntary unemployment (1).
- Higher tax revenue (1) allows government to increase spending on reducing unemployment e.g. training (1).

101. Identify the difference between a tax and a subsidy.

- A tax is a payment to the government (1) whereas a subsidy is a grant from the government (1).
- A tax increases costs/prices (1) a subsidy reduces costs/prices (1).
- A tax reduces consumption / production (1) a subsidy increases consumption / production (1).
- A tax is a cost for people / firms (1) a subsidy is a cost to the government (1).
- A tax is placed on demerit goods (1) a subsidy is given to merit goods (1).

102. Explain two reasons why demand for a product may be price-inelastic.

- The product may not have a substitute (1) consumers will not be able to switch to rival products / example (1).
- The product may be a necessity (1) people will need to buy it even if price rises / example (1).
- The product may take up a small proportion of income (1) people may not notice a price rise / example (1).
- The product may be addictive (1) people cannot do without the product / example (1).
- The purchase of the product cannot be postponed/there is only a short time period (1) so people do not have time to find alternatives (1).
- Advertising changes tastes of consumer (1) making the product a “must have” (1).

103. Analyse, using a demand and supply diagram, the effect a report stating that eating tomatoes is good for health will have on the market for tomatoes.

Up to 4 marks for the diagram:

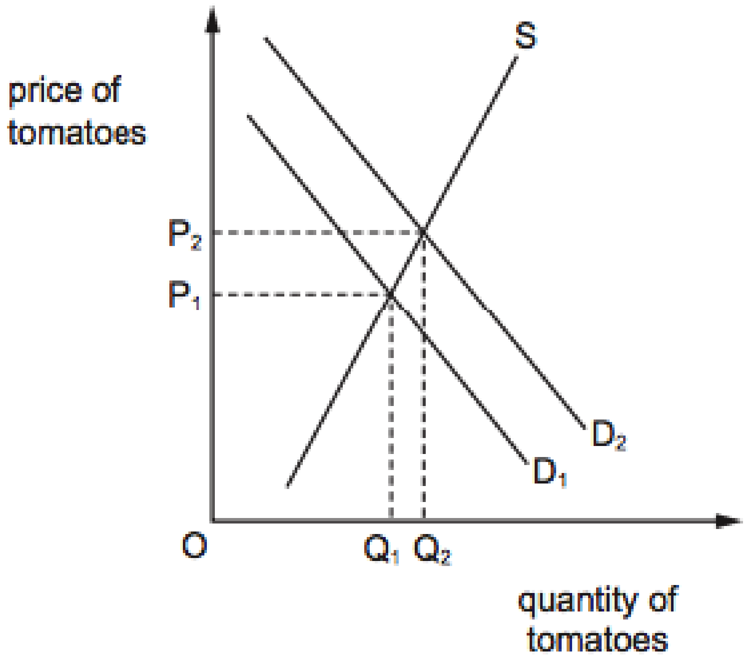
Axes correctly labelled – price and quantity or P and Q (1).
Demand and supply curves correctly labelled (1).
Demand curve shifted to the right (1).
Equilibriums – shown by lines or e.g. E1 and E2 (1).

Up to 2 marks for written analysis:

The report will encourage people to eat more tomatoes (1) rise in demand leads to shortages (1) a rise in price (1) and an increase in output of tomatoes (1).

The supply of tomatoes is likely to be relatively inelastic (1) and so an increase in demand will be likely to have more impact on price than quantity (1).

Do not reward analysis marks for description of diagram e.g. price changes from P2 to P1 or quantity changes from Q1 to Q2.



104. Discuss whether or not introducing more capital-intensive production methods will increase a firm's profits.

Up to 5 marks for why it might:

- Machines may introduce more advanced technology (1) increases productivity (1) higher output means firm benefits from economies of scale (1) less workers means lower labour costs (1) may reduce average costs / (1) may enable price to be lower (1) revenue will rise (1) if demand is elastic (1).
- Better quality products could be produced (1) increasing demand (1).
- May increase international competitiveness (1) sell more exports (1).

Up to 5 marks for why it might not:

- Machines may be expensive (1) workers may not be trained in their use (1) average costs could rise (1) reducing gaps between revenue and cost (1).
- Machines may break down (1) consequences of breakdown e.g. interruptions in supply (1).
- Initial set-up costs may be high (1) profits are reduced in short-run (1).
- A fall in price may cause revenue to fall (1) if demand is inelastic (1).
- Consumers may prefer handmade/personalised products (1) demand may fall (1).
- Labour may be in large supply (1) resulting in low wages (1).
- Government may subsidise firms to employ workers (1) to reduce unemployment (1).

105. Identify the difference between economic growth and recession.

- Economic growth is an increase in GDP/output (1).
- Recession is a fall in GDP/output / negative economic growth (1).

106. Explain how the HDI compares living standards between countries.

- Measures output/income/material standard of living (1) GDP/GNI per head (1).
- Measures healthcare (1) life expectancy (1).
- Measures education (1) mean and expected years of schooling / literacy rate (1).
- Provides an index figure for each country (1) from 0 to 1 / divides countries into very high, high, medium and low (1).
- Higher HDI means higher standard of living (1).

107. Analyse the effects of a rise in a country's birth rate.

- In the short run, fewer women may be able to work (1) which will decrease the size of the labour force (1) more children (1) increases the dependency ratio (1) putting pressure on the working population (1).
- In the longer run there will be more workers (1) this may decrease the dependency ratio (1) population size may increase (1) increase output (1) encourage investment (1).
- Government will have to devote more resources e.g. to primary education / childcare / support families (1) this may mean fewer resources can be devoted to e.g. improving living standards (1).
- Higher demand for industries related to young children e.g. baby clothes, child minding (1) may reduce unemployment (1).
- Increase in population/ overpopulation (1) causes a strain on resources (1) fall in living standards (1).
- If birth rate still lower than death rate (1) will still have an ageing population (1).

108. Discuss whether or not parents should have to pay a fee to send their children to school.

Up to 5 marks for why they should:

- Some parents can afford to pay (1) some parents will work hard to pay (1) paying may make them more prepared to demand good standards (1) would see themselves as consumers (1).
- May result in more resources being devoted to education (1) teachers reive higher pay (1) and motivated to work harder (1) parents demand high standards for their money (1) improving outcomes (1).
- Education provides private benefits (1) in the form of higher pay (1) more career choice (1).
- The government paying for education (1) involves an opportunity cost (1) e.g. spending on healthcare (1).
- A fee may be charged for secondary education but not primary education (1) if it is considered a basic level of education should be available to all (1) parents may choose to pay for education if they think it will be of high quality (1).

Up to 5 marks for why they should not:

- Some parents may not send their children to school (1) some will not be able to afford to (1) some may undervalue education (1) may reduce desire to have children (1).
- Opportunity cost to parents (1) e.g. less spending on other goods / services (1).
- It would increase income inequality (1) price would take a higher percentage of the income of the poor (1) less educated workforce (1) lower standard of living (1).
- Education provides external benefits (1) higher productivity (1) higher output/GDP (1) these could be lost (1)
- The government may need to provide education free to ensure the right quantity of education is consumed (1) that the poor have access to education (1).

109. Define saving

- Income (1) not spent / minus spending (1).
- Putting money in the bank (1) for future use (1).

110. Explain two benefits a country can gain from having a stock exchange.

- Provides a market for the sale of shares and bonds (1) encourages saving and investment (1).
- Makes it easier for firms to grow / source of finance for firms (1) makes people more willing to buy shares / facilitates mergers (1).
- Government able to raise funding through bonds (1) to support expenditure in economy (1).
- May encourage MNCs to set up in the country (1) which can increase economic growth / exports / employment (1).
- May encourage the setting up of other financial institutions (1) creating high-skilled/well-paid jobs (1).

111. Analyse how firms may be affected by a rise in the rate of interest.

- It will increase the cost of borrowing (1) this may discourage firms from investing (1) reducing their growth (1) may put up their prices (1).
- Firms may decide to save more (1) as the return will increase (1) the opportunity cost of investment will rise (1).
- It may increase the cost of past loans (1) reducing firms' profits (1).
- Demand for consumer goods may fall (1) as consumers will be discouraged from borrowing (1) be encouraged to save (1) so lower demand will reduce firms' revenue (1).

112. Discuss whether or not an economy will benefit from its firms getting larger.

Up to 5 marks for why it might:

- To produce more (1) more workers may be employed (1) which may reduce unemployment (1).
- Larger firms may be more price competitive/produce at lower average cost (1) due to economies of scale (1) example (1) this may increase output (1) causing economic growth (1) lower prices (1) it may also increase exports (1) improving the current account position (1).

Up to 5 marks for why it might not:

- More imported raw materials/capital goods may be purchased (1) worsening the current account position (1).
- Larger firms may have more market power (1) may be less efficient (1) may experience diseconomies of scale (1) example (1) average costs may rise (1) cause cost-push inflation (1) reducing exports (1) worsening the current account position (1).

113. Define wages

- A payment (1) to a worker (1).
- Amount earned (1) by labour / employees (1).
- Reward (1) for labour (1).

114. Explain why the opportunity cost of becoming a teacher for one worker may be greater than for another worker.

- Opportunity cost is the (next) best alternative (1) forgone (1).
- One worker may have earned more than another (1) and so would be giving up more earnings (1).
- One worker may give up more non-wage benefits (1) example e.g. promotion chances (1).
- One worker has further to travel to work / higher costs of travelling (1) loss of leisure time / time with family / lower net income (1).

115. Analyse how an individual's earnings are likely to change over her or his lifetime.

- At first an individual's earnings are likely to be low (1) they will lack training / experience (1) low qualifications / skills (1) unlikely to have been promoted (1).
- In early middle-age earnings may be higher (1) become more productive due to higher skills / experience(1) adding value for employer (1) may have been promoted (1) may work overtime (1) have higher expenses (1) e.g. purchase of a house / paying to support children (1).
- In late-age before retirement (1) earnings may be high due to experience (1) but may be low due to working part-time (1) being less productive (1) as being more tired / less physically fit (1).
- At retirement (1) rely on pension / family for financial support (1).
- Gender discrimination may fall (1) so increasing a woman's earnings (1).

116. Discuss whether most people would prefer to work for a multinational company (MNC) or a sole trader. (sole trader-not in syllabus)

Up to 5 marks for why they might want to work for an MNC:

- An MNC may earn high profits (1) benefits from economies of scale (1) lower costs enable them to pay high wages (1) may offer good fringe benefits (1) example (1) better working conditions (1)
- An MNC may provide training (1) improving their skills (1) give the opportunity to work with advanced technology (1) making it easier to get a well-paid job in another firm (1) better reputation / status for employee (1).
- The firm may provide the opportunity of promotion (1) and possibly the opportunity to work in another country (1)
- MNC more likely to provide stable employment (1) more likely to survive in recession (1)

117. Define a trade in services deficit.

- Imports of services being greater than exports of services (2).
- A deficit on a section of the balance of payments (1).

118. Explain two population problems a rich, developed country may experience.

- an ageing population (1) due to a falling death rate and birth rate / increasing dependency / increasing the cost of healthcare and/or pensions (1).
- **A decreasing population** (1) a declining labour force (1) due to a falling birth rate / increasing dependency (1).
- net immigration (1) putting pressure on schools/hospitals/housing (1).

119. Analyse how a move to freer international trade may benefit a country's producers.

- With lower tariffs (1) their exports will be cheaper (1) the volume of exports will not be restricted by quotas (1).
- If producers are efficient (1) they will sell more abroad (1).
- Producers will be able to buy imported raw materials more cheaply (1) this will reduce their costs of production (1) increase their profits (1).

120. Discuss whether or not the standard of living is higher in developed countries than in developing countries.

Up to 5 marks for why it might be:

- Higher average income (1) enabling people to buy more goods and services (1) spend money on healthcare (1) education (1) enabling people to live longer / be more productive (1).
- Government tax revenue is likely to be higher (1) enabling the government to spend more on e.g. pensions, healthcare (1).

Up to 5 marks for why it might not be:

- Some people's living standards in developed countries are low/some people's living standards in developing countries are high (1) income is not evenly distributed (1).
- Working hours in some developed countries are high (1) leading to stress (1) less leisure time (1).
- Environmental conditions are better in some developing countries (1) with less pollution (1).

121. Define private cost.

Private costs are costs borne by those producing the product (1) consuming the product (1) example of such a cost (1) social costs – external costs (1).

122. Explain two ways a government could reduce external costs.

Up to 2 marks for two explanations from:
Impose a tax (1) to discourage production / discourage consumption / turn external into private cost (1).
Regulation (1) ban or restrict production / ban or restrict consumption / may be enforced by fines (1).
Provide information (1) to discourage consumption / discourage production (1).
Government subsidies (1) to encourage cleaner production methods / the consumption of healthier food e.g. fruit instead of high fat foods (1).

123. Analyse how a high rate of inflation affects the functions of money.

People may not want to save money (1) as it may lose value (1) stop acting as a store of value (1).
People may not accept money as a payment (1) as it may lose value / people may not know what its value is (1) stop acting as a medium of exchange (1).
People may not be willing to lend money (1) inflation rate may be higher than interest rate (1) stop acting as a standard of deferred payments (1).
People may stop valuing products in monetary terms (1) due to instability of prices (1) stop acting as a unit of account / measure of value (1).

124. Discuss whether or not a fall in its foreign exchange rate will benefit an economy.

Up to 5 marks for why it might:
A lower exchange rate will reduce the price of exports (1) raise the price of imports (1) net exports may rise / exports may rise / imports may fall (1) current account of the balance of payments may improve (1) total (aggregate) demand may increase (1) real GDP may increase economic growth (1) employment may rise (1).

Up to 5 marks for why it might not:
Higher import prices may not reduce spending on imports if demand for imports is inelastic (1) export revenue may not rise if demand for exports is inelastic (1) import restrictions imposed on other countries may make it difficult to sell more exports (1).
Higher import prices may cause inflation (1) imported raw material costs may rise (1) causing cost-push inflation (1) imported finished products may not be replaced by domestic products (1) rise in net exports may cause demand – pull inflation (1).
Domestic citizens may be able to purchase fewer imports (1) lower living standards (1).
If the country is in debt (1) it may increase the cost of repaying the debt (1).
If the country is operating at full employment (1) it may not be possible to produce more exports / substitutes for imports (1).
Demand for the country's exports may be low (1) if quality is poor / incomes abroad are falling abroad (1).
If the fall is used as a way to capture markets abroad / protect domestic industries (1) there may be retaliation (1).

125. Identify two types of tax.

Any 2 from:
Direct (1) indirect (1) progressive (1) regressive (1) proportional (1) VAT/GST (1) excise duty (1) income tax (1) corporation tax (1) inheritance tax (1) lump sum tax (1) specific tax (1) ad valorem tax (1).

126. Explain two benefits to a government from a fall in unemployment.

Rise in tax revenue (direct/indirect) (1) people earning more / people spending more / output higher (1).
Fall in expenditure on unemployment benefit (1) enabling government to spend on other areas e.g. healthcare/education (1)
May help the government achieve its macroeconomic objectives (1) e.g. raise GDP / achieve full employment (1)

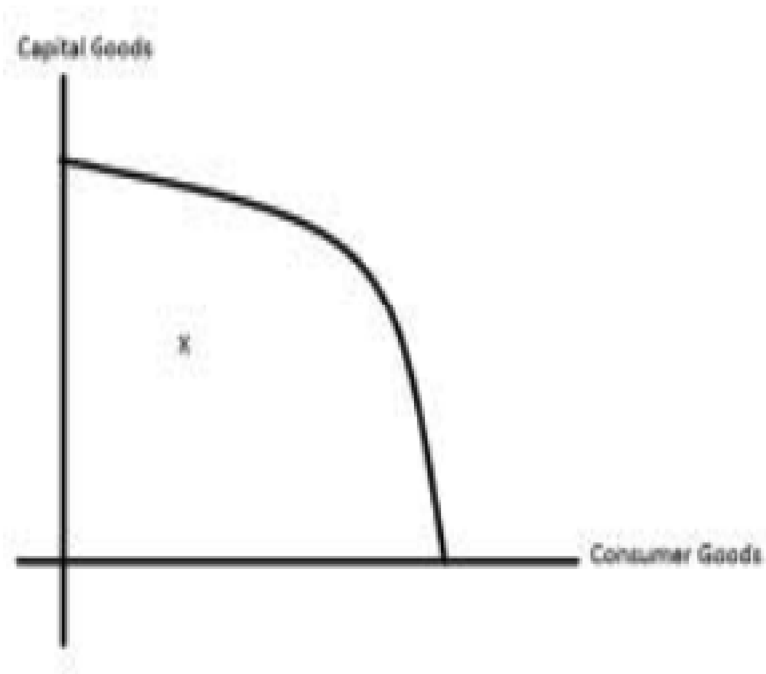
127. Analyse, using a production possibility curve (PPC) diagram, the effects of high unemployment in a country.

Diagram up to 3 marks:

- axes labelled Capital Goods & Consumer Goods (also accept any other combination as long as it is clear that it is two separate products, and not Price and Quantity)
- a curve bowed outwards or a downward sloping straight line drawn to the axes
- point inside the curve identified as point of unemployment e.g. X

Written analysis up to 3 marks:

- high unemployment means that the available resources are not fully (1) and efficiently used (1)
- the economy will not be able to produce at its maximum level (1) i.e. on the PPC (1) output of the economy is smaller than the maximum (1) lower than potential living standards (1)
- May be negative or lower economic growth / recession (1)



128. Discuss whether or not a government should raise the school leaving age.

Up to 5 marks for why it should:
More time in education may increase workers' skills (1) raise qualifications (1) reduce unemployment (1) raise productivity (1) increase output / increase economic growth (1) raise wages / increase living standards / increase HDI / reduce poverty (1) lower costs of production / improved quality of products (1) increase net exports / raise exports / lower imports (1) improve the current account position (1).
May improve life expectancy / health (1) by making people better informed (1).
May attract more MNCs to set up in the country (1) reduce their training costs / raise the quality of their output (1).

Up to 5 marks for why it should not:
May increase government spending (1) it will involve the use of extra resources (1) there will be an opportunity cost involved (1) example (1).
In the short run the labour force will be reduced (1) lower potential output (1).
A greater quantity of education does not necessarily mean a rise in quality of education (1).
Some of those who receive the extra years, of schooling may not take full advantage of these (1) which may disrupt the learning of others (1).
The dependency ratio may rise (1) tax rates may have to be increased (1).
Families may not be able to afford the extra years schooling (1).

129. Define earnings.

Income / money received by a factor of production (1) received from working / payment to workers (1) includes wages/salaries (1) overtime payments / bonuses / commission (1).income from other sources e.g. undertaking financial investment / renting / running a business (1).

130. Explain two non-wage factors that influence an individual's choice of occupation.

Accept any valid non-wage factor (1) with a valid explanation (1) e.g.
Short working hours (1) would increase leisure time (1)
Job security (1) reduces stress (1)
Promotion chances (1) increase wages in long run (1)
Fringe benefit / example (1) explanation of fringe benefit / explanation of example (1).
Qualifications / skills / education (1) allow an individual to choose an appropriate occupation (1).

131. Analyse why economics graduates are well-paid.

Graduates are skilled / more knowledgeable (1) have high levels of qualifications/training/education (1) productive / efficient (1) demand for their services is high (1) demand is inelastic (1) supply is low (1) long period of training required (1) supply is inelastic (1).
Graduates tend to work in jobs with high pay/position/responsibility/stress (1) example (1).
An economics degree is held in high esteem as a qualification (1).

132. Discuss whether or not people in developed countries are likely to save more than people in developing countries.

Up to 5 marks for why they might:
On average people in developed countries have a higher income (1) so are more able to save (1) or more able to save larger amounts so may gain a higher interest rate (1).
There tends to be a greater range of financial institutions in developed countries (1) more secure financial institutions (1) this gives greater confidence in saving (1).
People in some developed countries may have a culture of saving (1) e.g. Japan (1).
Inflation rate may be lower in developed countries (1) enabling people to save more of their income (1).

Up to 5 marks for why they might not:
The lack of a developed welfare system in some developing countries (1) means that some people may save more for e.g. their old age / retirement (1) future health problems (1).
There may be greater confidence about economic prospects in some developed countries (1) encouraging people to spend more (1).
The rate of interest may be lower in some developed countries (1) reducing the incentive to save (1).
Some people in developing countries are richer than some people in developed countries (1).
Some people in developing countries may save more to spend on higher education to increase the opportunity to work abroad (1).

133. What is the difference between the private sector and the public sector?

The private sector is the part of the economy where market forces / price mechanism / producers and consumers' decisions allocate resources (1) firms are owned by private individuals (1).
The public sector is the part of the economy where the government makes the decisions / government controlled / government-owned firms (1).

134. Explain two reasons why productivity may fall.

Productivity may fall as the result of a decline in the quantity or quality of education/training (1) workers will be less skilled (1).
A decline in investment (1) workers will work with less equipment (1).
A decline in wage rates (1) will reduce workers' motivation (1).
Worse working conditions (1) reduce job satisfaction (1).
A rise in working hours (1) making workers more tired (1).
Work may become more repetitive / less interesting (1) which may result in workers becoming bored (1).
Change in average age of workers (1) e.g. older workers may be less up to date with new technology / younger workers may have received less training / be less experienced (1).
Higher tax rates in a country (1) may reduce workers' motivation (1).
Poorer healthcare in a country (1) reducing workers' physical strength / mental alertness (1).

135. Analyse how an increase in the price elasticity of demand and the price elasticity of supply of its products could benefit a firm.

A more elastic demand would mean that the firm could reduce price (1) to raise revenue (1) as demand would rise by more than the fall in price (1) if revenue rises by more than costs, profit will increase (1).
A more elastic supply will mean that the firm can adjust more quickly the amount it sells when price changes (1) the firm will be able to take greater advantage of an increase in demand / rise in price (1) the firm will be able to take more of its products off the market should price fall (1).

136. Discuss whether or not small firms are likely to survive in the long run.

Up to 5 marks for why they might:
Small firms may provide a personal service (1) may have greater contact with their customers (1) more responsive to changes in consumer demand (1).
May be more flexible (1) fewer people to consult (1).
May be producing products in low demand (1) not facing competition from large firms (1).
May be a local monopoly / in a good location (1) may not face competition in the area (1).
May cooperate with other small firms (1) enable advantage to be taken of e.g. buying in bulk (1).
May supply specialised products / in a niche market (1) including to large firms (1).
May receive government subsidies (1) lowering their costs of production (1).

Up to 5 marks for why they might not:
May be driven out of business (1) by larger firms with lower costs of production (1) better known (1) larger firms can take advantage of economies of scale (1).examples of economies of scale (Up to 2).
Large firms may take over / merge with smaller firms (1) to gain market power (1) take advantage of economies of scale (1).
Government subsidies may only be short term (1).
Some small firms may cease to exist when their owners retire/die (1) e.g. sole traders (1).
Less capital available / difficulties in raising capital (1) make it difficult to purchase new / high quality equipment (1) make it difficult to invest in R&D (1).

137. Define Gross Domestic Product.

The (total) output/income/expenditure (1) of a country/economy (1).

138. Explain two reasons why a person may be willing to work at night.

A person may lack the skills to gain another job (1) have no choice (1).
There may be a high unemployment rate (1) a person will be grateful for any job (1).
Night work may fit in with family circumstances (1) a person may have to look after children / older relatives during the day (1)
The job may be well paid (1) compensating for the inconvenience (1).
The job may offer fringe benefits (1) example e.g. longer holidays (1).
A person may enjoy their job (1) example (1).
A person may need to earn additional income (1) to supplement income from day job / to support their family (1).

139. Analyse how having some of its population working abroad may benefit an economy.

The workers may send income home (1) helping to support dependents / raise living standards of dependents (1) saving on some government benefits having to be paid (1).
They may gain skills abroad (1) if they return they will increase the productivity of the labour force (1) may raise output / cause economic growth (1) reduce firms costs of production (1).
The money they sent back will be an inflow of foreign currency / remittance / primary income (1) improving the current account position on the balance of payments (1).
May reduce unemployment (1) if the workers' skills are not in demand at home (1).

140. Discuss whether or not advances in technology benefit an economy.

Up to 5 marks for why they might:
Advances in technology will raise the quality / productivity of capital / labour (1) it will increase the output that can be made / cause economic growth / increase GDP (1) may raise income (1)
Advances in technology can lower costs of production (1) reduce cost-push inflation (1) make domestic products more internationally competitive (1) improve the current account position of the balance of payments (1).
May raise the quality of products produced (1) raise living standards (1) make domestic products more quality competitive (1) improve the position of the current account of the balance of payments (1).
May attract MNCs (1).
Provide employment for certain classes of worker (1) e.g. skilled (1).

Up to 5 marks for why they might not:
Advances in technology may result in capital equipment that can replace labour (1) result in unemployment (1).
If workers do not have sufficient skills (1) they may not be able to get the most out of more advanced equipment (1).
New capital equipment may worsen working conditions (1) e.g. workers may get eye strain by looking at a screen for long periods of time (1).
May be an opportunity cost (in the short run) (1) as more resources may have to be devoted to capital goods / R&D (1).
New capital equipment may be expensive (1) increase firm' costs (1) may be an opportunity cost if provided by the government (1).

141. Identify two factors of production involved in mining gold.

Any 2 from:
Labour/miner (1) land / gold ore (1) capital/equipment (1) enterprise/owner (1)

142. Explain two reasons why a government may impose a tariff on imported gold.

To discourage the purchase of the foreign gold / reduce the demand for imported gold (1) to improve the current account position on the balance of payments (1).
To raise revenue (1) to fund government expenditure (1).
If gold is an infant industry (1) enable domestic industries to grow (1) increase output / become more competitive / efficient / natural resources discovered (1)
Protect domestic gold industry (1) protect jobs / keep unemployment low (1) encourage expansion of domestic firms (1).
Retaliation (1) in response to trade restrictions on gold imposed by other countries (1).

143. Analyse how perfect competition differs from a monopoly.

In perfect competition there are many sellers (1) in monopoly there is only one (1).
In perfect competition there are no barriers to entry and exit / free entry and exit (1) in monopoly there are barriers (1).
Firms in perfect competition are price takers (1) a monopoly is a price maker (1).
In perfect competition there is perfect knowledge (1) that other firms may not be aware of e.g. the profit being earned by a monopoly (1).
In perfect competition there is a low degree of market concentration (1) in monopoly it is 100% (1).
In perfect competition there are perfect substitutes / homogenous products / identical products (1) in monopoly there are no substitutes / a unique product (1).

144. Discuss whether or not an economy should mine and sell all of its gold now.

Up to 5 marks for why it should:
Will create employment (1) raise output / higher economic growth (1) increase incomes (1) increase living standards (1).
It can be exported (1) demand may be high now (1) improve trade in goods (1) improve the current account position (1).
More tax revenue can be earned (1) enable the government to spend more on e.g. education/healthcare (1).

Up to 5 marks for why it should not:
It will stop future generations (1) being able to benefit from its sale / reduce economic growth (1) as resources will be depleted (1) as a result of higher demand (1) e.g. due to higher income (1).
The price of gold may rise in the future (1) now may not be the best time to sell it (1).
The exchange rate may currently be low (1) which may reduce the revenue that the country can gain from exporting the gold (1).
Advances in technology (1) may lower costs of extraction in the future (1).
Gold mining may cause external costs (1) example e.g. pollution (1).
In the long run, gold may have to be imported (1) increasing the current account position (1).
It may lead to overspecialisation (1) potential for structural unemployment (1).

145. Define protectionism.

Protectionism is the deliberate attempt to limit imports or promote exports / make foreign products less competitive (1) have trade restrictions (1).

146. Explain two methods of trade protection.

Tariffs (1) tax on imports that would increase the price of imports (1).
Quotas (1) limit on the volume of imported goods allowed into the country (1).
Subsidies (1) to reduce the costs of domestic firms / reduce the price of domestic goods and services (1).
Embargoes (1) total restriction / ban on imported goods (1).
Exchange controls (1) limit on the amount of foreign currency that can be purchased (1)
Regulations (1) making it difficult to import (1)

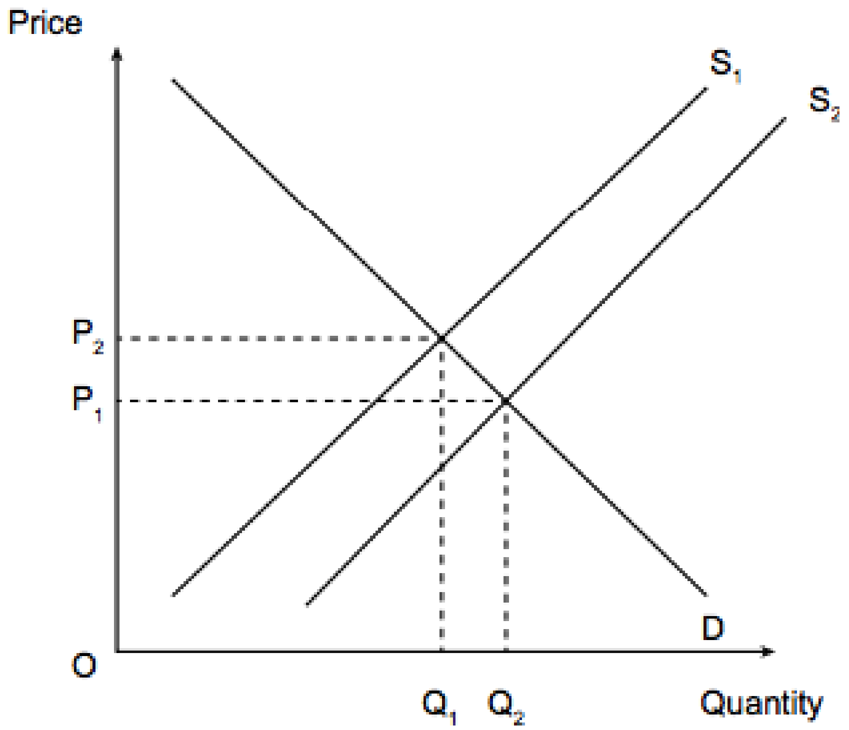
147. Analyse, using a demand and supply diagram, the effect of falling steel prices on the market for cars.

Diagram up to 3 marks:

- P, Q, S, D correctly labelled
- Shift in supply curve to the right
- Decrease in P and increase in Q
- New equilibrium indicated

Written analysis up to 3 marks:

- Steel prices decreasing will lead to a decrease in car manufacturers' costs (1)
- This may be passed on in lower price of cars (1)
- The extent of the change might be influenced by PED/PES (1)



148. Discuss whether or not protectionism is effective in raising living standards.

Up to 5 marks on how it will be effective in raising living standards:
Protectionism may increase the price of imports (1) the quantity of imports demanded will decrease (1) the quantity of domestic goods demanded may increase (1) demand for labour is derived demand (1) demand for workers will increase (1), therefore unemployment decreases (1) domestic incomes increase (1) consumption of goods and services increase (1) employment in infant/declining (sunrise/sunset) industries may be protected (1).
Increased demand for products of domestic firms may lead to an increase in total revenue (1) and profits (1).
Protectionism can decrease imports of demerit goods (1) reducing external costs (1) e.g. pollution, health/social problems (1).

Up to 5 marks on how it will not be effective in raising living standards:
Protectionism may reduce the possibility of specialisation (1) to produce what a country is best at (1) increasing production costs (1) increasing import prices (1).
Protectionism might lead to retaliation (1) other countries may adopt protectionist policies on imports (1) increasing the price of the country's exports (1) decreasing the demand for exports (1) reducing the demand for workers (1) unemployment increases (1) less income (1) consumption/production of goods and services decreases (1).
Protectionism may reduce competition / choices available to domestic consumers (1) reducing the quality of the products available (1).
Protectionist policies in one country could reduce employment in other countries (1) as they are no longer able to export the same amount (1).

149. Define supply.

The number of products firms are willing to provide/sell (1) and are able to provide/sell (1) at a given price (1).

150. Explain one market failure that may occur in the salmon market.

Market mechanism fails to allocate resources efficiently / not all costs are considered (1).
Social cost is greater than private cost (1) as there are external costs / negative externalities (1) consumption at the current rate may lead to depletion of stock (1) consumption becomes unsustainable (1) overconsumption / resources are overused (1) these resources could be conserved for future generations (1) cost to future generations who will not be able to enjoy the product (1) pollution may occur e.g. water pollution (1).
Monopoly / one large producer (1) no competition (1) can charge high prices / exploit consumers (1) excess profits of producers (1).
Inequality (1) high price (1) poor cannot afford the product (1) and will not be able to attain any health benefits of consuming the product (1).

151. Analyse how information on changes in a firm's revenue can be obtained from price elasticity of demand calculations.

PED definition or formula (1) PED provides information on how consumers react to a change in price (1).
If PED is elastic / PED > 1, a fall in price will raise revenue (1) as quantity demanded will increase more (1) than proportionately/percentage (1). A rise in price will decrease revenue (1) as quantity demanded will decrease more than proportionately (1).
If PED is inelastic / PED < 1, a rise in price will raise revenue (1) as quantity demanded will decrease less (1) than proportionately / percentage (1). A fall in price will decrease revenue (1) as quantity demanded will increase less than proportionately (1).
If PED is perfectly elastic, a rise in price will cause revenue to fall to 0 (1) as consumers will stop buying completely (1)
If PED is perfectly inelastic / PED = 0, a rise in price will raise revenue (1) as consumers will continue to buy the same amount (1)
If PED has unit elasticity / PED = 1, a change in price will keep revenue unchanged (1) as quantity demanded will change by the same proportion (1).

152. Discuss whether or not government subsidies are always beneficial to producers.

Up to 5 marks on how subsidies are beneficial to producers:
Subsidies will lead to a decrease in cost of production (1) leading to a decrease in the price of products / shown on a diagram (1) and an increase the quantity demanded for producers / shown on a diagram (1).
Total revenue for producers may increase (1) increasing profits (1).
Subsidies will enable producers to increase investment (1) increasing future output (1)
Producers can maintain a stable livelihood (1) ensure a stable income (1) ensure jobs can continue to be provided (1).
Subsidies can encourage new entrants to an industry (1) increasing competition (1)

Up to 5 marks on how subsidies are not beneficial:
Subsidies may be relatively small (1) and not be enough to offset the firm's losses (1) or not enough to offset higher costs (1).
Subsidies can lead to complacency (1) where producers do not use subsidies in an effective way (1) they will be reluctant to lose the subsidies (1) and producers not receiving the subsidy e.g. those in a competing industry will be at a disadvantage (1).
Subsidies have opportunity cost for the government (1). Other government provisions might be sacrificed (1) e.g. healthcare and education (1).

153. Identify the difference between absolute and relative poverty.

Relative poverty is where people have fewer goods and services / income than others in an economy / lower income than the average in the country (1).
Absolute poverty is where people are unable to meet basic needs e.g. food and shelter / living on e.g. less than US $1.25 a day / a given % of a country's average income (1).

154. Explain two characteristics of a developed country.

High incomes / high GDP per capita / high standard of living / high HDI (1) due to high production of goods and services (1).
High life expectancy / low death rate / low infant mortality (1) due to e.g. good healthcare, better nutrition, low crime rates (1).
High school enrolment / standard of education (1) due to high spending on education (1).
Low level of absolute poverty / malnutrition / starvation (1) due to high incomes / fairer distribution of income (1).
Low rate of population growth (1) due to e.g. availability of contraception, social attitudes, women working for longer, less need for children to work (1).
Low primary / large secondary / tertiary sectors (1) value of output is greater in the secondary/tertiary sector (1).

155. Analyse two policy measures to alleviate poverty.

Increasing benefits (1) increasing the incomes of the poor (1) e.g. housing benefits, disability benefits, unemployment benefits (1).
Increased provision of merit goods such as healthcare (1) and education / improved literacy (1) improving the ability to earn an income through employment (1).
Government employment creation schemes (1) creating new jobs and employing more people in the government (1) government providing help to search for employment (1)
Encouraging economic growth (1) through fiscal or monetary policies (1) decreasing interest rates (1) increasing government spending (1).
Provision of subsidies (1) example (1) keeping down the cost of living (1) leaving more for other essential items (1).
Progressive taxation (1) to redistribute income towards the poor (1).
The introduction of minimum wage legislation (1) so that everyone can at least afford basic necessities such as food and shelter (1).

156. Discuss whether or not moving firms from the public sector to the private sector will benefit an economy.

Up to 5 marks for positive effects:

Private sector firms have the profit motive (1) and so the efficiency (1) and quality of their output may be good (1) and so may enable them to pay higher wages (1).

The threat of closing down (1) will force firms to provide a good service to stay in business (1).

Competition between private firms (1) leads to better response to consumer demand (1) keeping costs (1) and prices low (1).

Private firms are accountable to shareholders (1) who want high dividends (1) therefore firms need to be efficient/profitable (1).

Investment in the private sector will not be disrupted by fluctuations in government tax revenue (1).

May attract financial investment from abroad (1).

Up to 5 marks for negative effects:

Investment funds may be more available to the public sector than the private sector (1) to provide a quality service (1).

A public sector firm can be prevented from going of business (1) guaranteeing the provision of certain products e.g. water (1) maintaining employment (1)

Public sector firms are not always motivated by profit (1) the government is more likely to base its decisions on social/external costs and benefits (1) e.g. the environment (1) rather than just private costs and benefits (1).

Public sector firms may provide essential services (1) which the private sector is not willing to provide (1) will be more inclined to keep prices low (1) the poor will be able to afford essential products (1).

157. Explain the difference between productivity and production.

Productivity is the output produced per factor / input, e.g. per worker (1) per period of time, e.g. per hour (1) measure of efficiency / how quickly products are produced (1).

Production is the total output (1) the process of producing goods and services (1) in a period of time, e.g. per year (1)

158. Analyse how increased productivity could reduce inflation.

An increase in productivity means that more could be produced / output increased (1) from a given set of factors/inputs (1) could also lower (average) costs of production (1) reducing prices (1).
Increased productivity could reduce wage costs (1) reduce waste (1) increased profits of firms (1) increasing investments / expansion of business (1) new capital equipment could further lower costs of production (1) lowering cost-push inflation (1).

159. Discuss whether or not a merger would make it easier for a firm to achieve its goals.

Up to 5 marks for why it would be easier:
It could be a horizontal merger (1) enabling easier exploitation of economies of scale (1) leading to lower average costs (1) examples of economies of scale (max 2) lower prices (1) leading to more demand (1) and higher profits (1).
It could be a vertical merger (1) reducing the costs of obtaining materials / making it easier to distribute the firm's products (1)
Reduced competition / monopoly (1) a quick way to grow (1) the firm can set higher prices (1) without losing too many customers (1).
Reduced risk (1) the loss of one part of the business could be offset by the other (1) it is easier for the firm to survive (1).

Up to 5 marks for why it would not be easier:
Reduced competition may cause complacency (1) may fail to control of costs (1).
The merged firm may experience diseconomies of scale (1) average cost may increase as output increases (1) example (max 2) leading to higher prices (1) reduced demand (1) and lower profit (1).
Large firms may lose customers due to lack of personal touch (1).
Cost of integrating firms such as redundancies / fall in morale (1).
Government may no longer support large firms (government support small firms) (1) removing tax advantages (1) and subsidies (1).

160. Identify two reasons why a person may want to work in the state sector.

Higher wages (1) job security (1) better pension (1) good working conditions (1) status of public sector worker (1) job satisfaction e.g. teacher (1) patriotism / to perform a public service (1) state sector jobs may be more widely available (1).

161. Explain two reasons why a government may want to cut spending on education.

Government would like to reduce its total spending (1) to reduce government borrowing (1) cut the national debt (1) avoid having to raise taxes (1) to reduce total demand (1) reducing inflation (1)
Spending on education incurs an opportunity cost (1) government would prefer to spend on other areas e.g. defence, healthcare (1).
Education is less valued by the public (1) than other services e.g. health, defence (1).
Government would like to reduce wasteful expenditure (1) to increase the efficiency of the public sector (1).
A drop in the number of students in education (1) less spending needed (1).
Government wants students to bear a greater proportion of costs (1) since students ultimately benefit from better paid jobs (1).

162. Analyse the contribution that education can make in an economy.

Education enables the population to develop the knowledge (1) skills (1) for future development (1) better skills may improve productivity (1) increased output / economic growth (1) improved quality of output (1) better skills may attract foreign investors / MNCs to the country (1).
Educated people have better job opportunities (1) potentially enabling them to earn higher incomes (1) leading to increased consumption (1) which reduces poverty / improves living standards (1).
Increased consumption could lead to higher demand in the economy (1) increasing output (1).
Education enables the economy to move to a tertiary based economy (1) tertiary based economy relies heavily upon a well-educated population (1).
Education enables women to play a more active role in the economy (1) enabling them to find jobs (1) and earn a living independently (1).
Education enables people to start their own business (1) increasing output (1).
Education provides employment e.g. teachers, janitors (1)
More highly educated people may be more concerned about the environment (1) may reduce external costs (1).
More highly educated people may be healthier (1) reducing costs of healthcare / raising productivity (1).

163. Discuss whether or not a worker would always benefit by specialising.

Up to 5 marks for why they would benefit:
By specialising workers focus on what they are best at (1) acquiring better skills (1) quality of goods increase (1) output/productivity increases (1) worker earns a higher income (1) easier to find job in the same sector (1) more likely to achieve promotion (1)
Saves time (1) workers don't need to think of next process / move from place to place (1).
Specialised workers are limited in supply (1) causing their wage to be higher (1).
Invention of new technology (1) makes the job easier (1).

Up to 5 marks for why they would not benefit:
Workers may experience boredom (1) if the work is repetitive (1) reducing productivity/efficiency/motivation (1)
Those with a limited amount of skills (1) may find it difficult to obtain alternative jobs (1) may be replaced by machinery more easily (1) risk of unemployment (1).
Workers may be over-dependent / too reliant on one skill / risk over-specialisation (1) unable to complete the task without the help of others (1) especially when production is disrupted (1).
Training to specialise has an opportunity cost (1) lost income / later starting date (1)

164. Define unemployment.

Unemployment is the condition where a person is able (1) and willing to work / actively looking for a job (1) but unable to find a job (1).

165. Explain two reasons for wage differentials amongst different economies.

Difference in demand for labour (1) difference in supply of labour (1).
Whether or not an economy is in recession (1) economies in decline will have a low demand for labour / expanding economies will have a high demand (1).
Difference in population affecting the supply of labour (1) net migration rates / birth rates / death rates (1) more supply would decrease wages / lower supply would increase wages (1).
Difference in demand for goods and services (1) affecting the demand for workers as demand for workers are derived demand (1).
Difference in government spending on e.g. education (1) affects wage of pubic sector (1).
Difference in productivity affecting the demand (1) high productivity leads to higher output (1) leads to higher wages (1).
Difference in trade union and collective bargaining power (1) countries with stronger trade unions will push wages up (1).
Difference in living costs / inflation (1) e.g. food prices (1) wage demands increase (1).

166. Analyse how a recession in one country could cause unemployment in another country.

Emigration to another country (1) may push that country's workers out of a job (1).
Income / GDP per head would have fallen (1) the country may buy fewer imports (1) demand for the country's products may fall (1) firms in exporting countries may reduce output (1) lower output would reduce demand for workers (1).
MNCs in the country may make less profit / make a loss (1) may reduce production in other countries (1).
A recession in a large economy could create worldwide uncertainty (1) discourage investment / output of capital goods (1) reduce employment in the capital goods industries of another country (1).

167. Discuss whether or not the economic advantages of immigration into countries such as the UK and Germany outweigh the economic disadvantages.

Up to 5 marks for advantages:

Immigration increases the size of the labour force of the country (1) the immigrants may be young working age people (1) this could increase the productivity of the economy (1) increasing the supply-side capacity of the economy (1) leading to economic growth.

Immigrants may take jobs which locals are unwilling to take (1) where a shortage occurs (1) example (1)

Immigrants may be willing to work for lower wages (1) production costs would fall (1) leading to lower prices (1)

Immigration leads to increased competition for jobs (1) workers need to work harder (1) overall productivity increases (1)

Immigrants may also bring in capital (1) to start their own business (1) creating even more jobs (1).

Immigrants spend money in the economy / increasing domestic consumption (1) increasing total demand / causing economic growth (1) paying indirect taxes (1).

Immigrants may also work and pay direct taxes / income tax (1) government revenue increases (1) enabling more government spending (1) such as health and education (1).

Up to 5 marks for disadvantages:

Immigrants may take jobs where locals could be employed (1) increasing unemployment in that country (1).

Some immigrants have better qualifications and skills (1) taking jobs from less qualified and lower skilled local workers (1).

Immigrants may be more willing to take up jobs with lower pay (1) locals will not feel that such low pay is appropriate (1) depressing wage growth (1).

Large supply of foreign workers so local businesses will be less willing to take on apprentices / train new workers (1) leaving the locals who are unemployed with low skills / unable to take up a job and learn appropriate skills (1).

Increased demand for healthcare and education (1) increases demand on government resources (1).

Immigrants may cause increased demand for houses (1) pushing house prices up (1) making housing less affordable to local residents (1).

168. State 2 benefits a country may gain from immigration.

larger labour force, reduced dependency rate, higher demand, higher tax revenue, more skilled workers, greater utilisation of resources.

169. Explain 2 consequences of deflation.

Output may fall (1) if due to lower demand firms will cut back production (1).
Unemployment may rise (1) fewer workers will be needed to produce fewer goods and services (1).
Economic growth may decline / a recession may occur (1) due to lower total (aggregate) demand (1).
Output may rise (1) if due to lower costs of production / advances in technology (1).
Exports may increase (1) if domestic products have become more price-competitive (1).

170. Analyse why children from low-income families may have low incomes as adults.

Likely to receive less education (1) likely to have lower quality healthcare (1) nutrition is likely to be poor (1) likely to gain fewer qualifications/skills (1) be less productive (1) have fewer employment opportunities (1) may be in low paid jobs (1) may be unemployed (1).

171. Discuss whether or not a national minimum wage will reduce poverty

Why it might:

- is set above the equilibrium level, will raise the pay of the low-paid
- may reduce relative poverty by reducing the gap between high and low-income earners
- may reduce absolute poverty by enabling low paid workers greater access to basic necessities
- may raise employment, if it motivates workers and raises productivity
- may raise employment if it increases total (aggregate) demand.

Why it might not:

- may not have any impact if set below the equilibrium level
- unemployment may rise as it may increase firms' costs of production
- will not help the poor who are unable to work
- may not reduce relative poverty if it results in other workers pressing for, and getting, wage rises to maintain their wage differentials
- some receiving it may not be in poor households.

172. Define a capital good.

Human-made good (1) used in production/used to produce other goods and services (1).

173. Explain two challenges facing small firms.

Lack of finance/difficulty raising finance (1) banks may be more reluctant to lend to small firms (1).
May not be able to take advantage of economies of scale (1) may have higher average cost (1).
Not well known (1) difficult to attract consumers (1).
May face fierce competition from large firms (1) which may lower their prices/spend more on advertising (1).
Risk of failure (1) due to inexperience of owners (1).

174. Analyse, using a demand and supply diagram, how a rise in income may affect the market for gold

Up to 4 marks for the diagram:
Axes correctly labelled – price and quantity or p and q (1).
Demand and supply curves correctly labelled (1).
Demand curve shifted to the right (1).
Equilibriums – shown by lines P1, P2/Q1, Q2 or marking the equilibrium points E1 and E2 (1).

Up to 2 marks for logical analysis:
An increase in income will increase people's ability to buy gold/raise purchasing power (1).
Price will rise/quantity traded will rise (1).

175. Discuss whether or not MNCs increase production and productivity in their host countries.

Why they might:

- may have high demand for their products
- may create demand for raw materials from domestic firms
- may bring new technology and working practices into the countries
- may train workers
- may pay higher wages which may motivate workers.

Why it might not:

- may drive some domestic firms of business
- may deplete natural resources, reducing output in the future
- may have long/unsociable working hours
- may generate external costs including pollution which may reduce the health of workers.

176. Define macroeconomics

The study of the whole economy (2).
Example of a macroeconomic topic e.g. unemployment/study of economics on a large scale (1).

177. Explain two consequences to firms of unemployment.

Lower demand (1) lower revenue (1).
Lower ability to take advantage of economies of scale (1) due to lower output (1).
Lower average costs (1) lower wages (1).
Less risk of industrial action (1) workers afraid of losing their jobs (1).
Greater ease of recruiting workers (1) reducing recruitment costs (1).

178. Analyse how tax cuts could increase exports.

Lower indirect taxes could reduce costs of production (1) could encourage investment (1) use of more advanced technology/more efficient methods of production (1) which could lower prices / make prices more internationally competitive (1).
Lower income tax could motivate workers (1) raise productivity (1) lower price of exports (1) raise quality of exports (1).
Lower taxes in other countries (1) e.g. a lower tariff will encourage foreigners to purchase more exports (1).

179. Discuss whether or not a current account deficit on its balance of payment harms an economy

Why it might:

- income/demand is leaving the economy
- employment will be lower than it could be
- it may put downward pressure on the exchange rate
- the country will get into debt
- other countries may not be willing to lend to it / invest in the country.

Why it might not:

- deficit may be low / short term
- enables the country to consume more than it produces
- imports of raw materials and capital goods will increase output in the future.

180. State 2 objectives of firms

survival, social welfare, profit maximisation and growth.

181. Explain how a subsidy can correct market failure

A payment to increase production (1) and lower price (1) can increase consumption of merit goods (1) products with positive externalities (1) which are under-consumed if left to market forces (1) can be paid to private sector firms to produce public goods (1) would not be produced if left to market forces (1).

182. Analyse, using a production possibility curve (PPC) diagram, the effect of advances in technology on an economy

Up to 4 marks for the diagram:
Axes correctly drawn (1).
Initial curve drawn as a curve or a downward sloping line to the axes (1).
New curve drawn as a curve or a downward sloping line to the axes (1).
Shift to the right indicated by arrow or lettering (1).

Up to 2 marks for logical analysis:
Advances in technology raise the quality of capital (1) increase productive capacity (1).

183. Discuss whether or not an increase in government spending will reduce unemployment

Why it might:
- may raise total (aggregate) demand, encouraging firms to hire more workers
- may be spent on education which may increase people's skills
- may be spent on healthcare which may make people fitter and more employable
- may be spent on subsidies to firms which will encourage them to increase output and take on more workers.

Why it might not:
- if spent on unemployment benefits, it may encourage some people to leave their jobs
- if there is full employment, it will just cause inflation
- spending on education may be ineffective e.g. develop the wrong skills
- higher total (aggregate) demand may encourage firms to use more capital goods rather than labour.

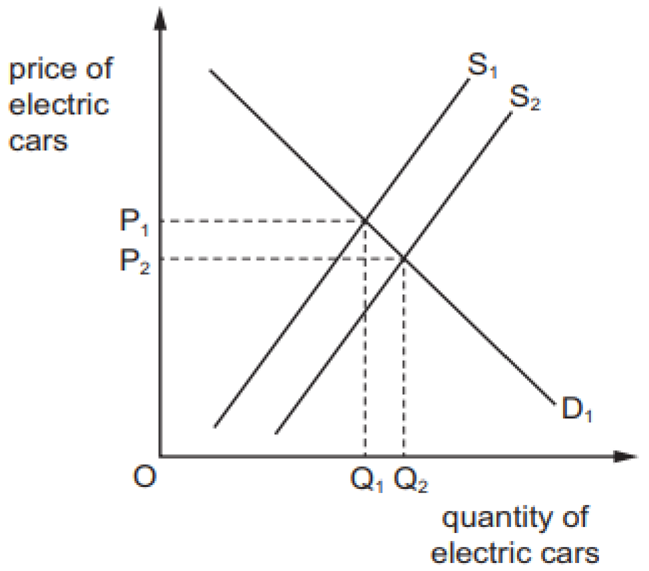
184. Define external costs

Harmful effects (1) on third parties (1).
Social costs – private costs (1).

185. Explain two influences on whether demand for a product is price-elastic or price-inelastic.

Availability of substitutes (1) close substitutes will be likely to result in demand being price-elastic (1).
Whether the product is a luxury or necessity (1) luxuries tend to have elastic demand/necessities tend to have inelastic demand (1).
Proportion of income spent on the production (1) demand tends to be inelastic if a small proportion is spent on it/ elastic if a high proportion is spent on it (1)
Whether the purchase can be postponed (1) if so, demand is likely to be elastic, if not inelastic.
Addictiveness of the product (1) addictive products are likely to have inelastic demand (1).
Time period (1) demand tends to become elastic over time (1).

186. Analyse, using a demand and supply diagram, how a subsidy given to producers could affect the marker for electric cars.



Up to 4 marks for the diagram:
Axes correctly labelled – price and quantity or p and q (1).
Demand and supply curves correctly labelled (1).
Supply curve shifted to the right (1).
Equilibriums – shown by lines P1 and P2 / Q1 and Q2 or equilibrium points E1 and E2 (1).

Up to 2 marks for coherent analysis which might include:
A subsidy encourages firms to produce more/equivalent to a reduction in costs (1).
Price will fall/quantity traded will rise (1).

187. Discuss whether cars should be produced by the private sector or the public sector.

Why cars should be produced by the private sector:

- may be a more competitive market and so prices may be lower
- profit incentive may raise efficiency and encourage firms to produce what consumers want and keep costs low
- may be higher investment which could improve quality and lower costs
- may be easier to raise finance as can sell shares
- may be forced to be efficient as may not be supported by the government

Why cars should be produced by the public sector:

- a private sector monopoly may abuse market power and may restrict supply and raise price
- public sector firm to charge low prices/prices below cost for cheap cars to help the poor
- public sector firms may take into account external costs and benefits/welfare
- the state may have more financial resources and be able to invest on a larger scale.

188. State two functions of money, other than a store of value.

medium of exchange, measure of value (unit of account) and standard of deferred payments.

189. Explain two advantages banknotes have as a form of money.

Generally acceptable (1) people are prepared to accept them in exchange for products and to settle debts (1).
Portable (1) banknotes are light to carry around (1).
Divisible (1) notes of different denominations (1).
Recognisable (1) notes have distinct features on them known to the population (1).
Limited in supply (1) the central bank prints a set number of notes (1).
Homogeneous (1) all banknotes of the same value are identical (1).

190. Analyse the influences on the mobility of workers.

Occupational mobility is influenced by education (1) the more qualifications workers have (1) the more choice of jobs they will have (1).
Occupational mobility is influenced by training (1) the more skills workers have (1) the easier they will find it to switch jobs (1).
Geographical mobility is influenced by the price/availability of housing (1) The cheaper/more available housing is (1) the easier will workers find it to work in other areas (1).
Geographical mobility is influenced by family ties (1) people may be reluctant to move because children are at school/partners have job in a particular area (1).
Mobility between countries will be influenced by immigration controls (1).

191. Discuss whether or not a central bank should raise the rate of interest.

Why it should:

- to reduce demand-pull inflation as a higher interest rate may encourage to spend less as it may discourage borrowing and encourage saving
- to reduce borrowing if people and firms are building up unsustainable debt
- to raise the exchange rate if there is downward pressure on a fixed exchange rate
- to reduce a current account deficit if it is thought that lower spending will reduce imports and may discourage exports.

Why it should not:

- it may increase cyclical unemployment by reducing total (aggregate) demand
- it may reduce the economic growth rate as it may discourage investment due to the higher cost of borrowing to purchase capital goods
- it may raise the exchange rate and make exports less price competitive.

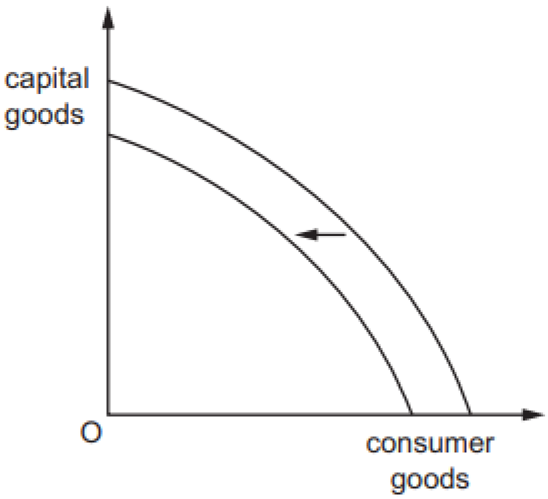
192. State two qualities of a good tax.

convenient, equitable, certain, efficient, flexible.

193. Explain two causes of a decrease in the death rate.

Rises in income (1) leading to better living standards (1).
Better education (1) resulting in e.g. better nutrition (1).
Better healthcare (1) due to e.g. advances in medical technology (1).
Reduction in crime/end of a war (1) fewer people dying violently (1).

194. Analyse, using a production possibility curve (PPC) diagram, the effect of a decrease in population size on an economy.



Up to 4 marks for the diagram:
Axes correctly drawn (1).
Initial curve drawn as a curve / line sloping downward to the axes (1).
New curve drawn as a curve / line sloping downward to the axes (1).
Shift to the left indicated by arrow or letter (1).

Up to 2 marks for coherent analysis which might include:
A decrease in population size may decrease the size of the labour force (1)
decrease productive capacity (1).

195. Discuss whether or not an ageing population is a benefit to an economy.

Why it might:

- older people may be an economic asset through their knowledge and experience
- the retirement age may be raised so that the labour force may increase
- in some countries, an increase in the average age of the population may mean more people are in the labour force and may reduce the dependency ratio
- may indicate a good standard of living increasing life expectancy.

Why it might not:

- may be an increase in the dependency ratio with a smaller proportion of workers to support a higher proportion of retired
- any increased spending on healthcare and pensions will involve an opportunity cost
- taxes may have to be increased to finance increased costs of healthcare and pensions
- any shortage of workers may drive up wages and cause cost-push inflation
- older workers may not be up to date with new technology and new ideas

196. State 2 key questions about how resources are allocated.

What to produce, how to produce it, for whom / who gets what is produced.

197. Explain two fiscal policy measures that can be used to reduce poverty.

Rise in government spending on education (1) make it easier for people to gain jobs / better paid jobs (1).
Rise in government spending on healthcare (1) providing a basic necessity / increase productivity of workers (1).
Subsidise / free provision of food (1) providing a basic necessity / reduce absolute poverty (1).
Subsidise / free provision of housing (1) helping those unable to afford housing (1).
Increase in state benefits (1) e.g. paying more in unemployment benefit will raise the income of some of the poor (1).
Use of progressive taxes / reduction of regressive taxes (1) reduce relative poverty (1).

198. Analyse why a country may have low productivity.

Education may be low (1) and training may be low (1) workers may lack skills (1).
Wages may be low (1) working conditions may be poor (1) reducing the motivation of workers (1).
There may a lack of investment (1) workers working with out of date/low quality capital goods (1).
Healthcare may be low (1) causing workers to be tired (1).

199. Discuss whether or not mergers benefit an economy.

Why they might:

- may enable the new firm to take greater advantage of economies of scale, lower average cost and lower prices, resulting in lower inflation
- may enable the new firm to earn higher profits and spend more on research and development and investment. This could raise the quality of products and increase economic growth
- may enable the new firm to compete more effectively internationally which could improve the current account position
- a vertical merger can increase the efficiency of production by co-ordinating the production stages. This could increase productive potential.

Why they might not:

- the new firm may experience diseconomies of scale, higher average cost and higher prices. This may increase the inflation rate
- a horizontal merger will reduce competition which can increase prices, reduce choice, lower efficiency and reduce quality. This may reduce international price competitiveness which may harm the country's current account position. It could also lower the country's economic growth rate
- the new firm may rationalise and this may result in unemployment.

200. State two functions of local government.

- providing public goods
- providing street lights
- local recreation activities
- cleaning
- waste collection and management
- infrastructure investment
- providing tax incentive
- zoning
- provision of low income housing
- supporting local businesses

201. Explain how a lower cost of living can encourage population growth.

Cheaper to bring up a child (1) education and healthcare cost lower or any other example (2) parents don't have to work so hard (1) more time to raise children (1).
Lower cost of living could lower death rate (1) as healthcare is more affordable (1) and people can live longer (1).
Lower cost of living could encourage net migration (1) cheaper to live in that country (1).

202. Analyse the influences on the mobility of two factors of production.

Availability of proper infrastructure (1) to move from place to place (1) e.g. trains / roads (1) whether it is affordable or not (1).
Cost of living differences (1) whether workers can afford to move to another place (1) e.g. housing costs, cost of education (1).
Availability of information (1) on jobs elsewhere (1).
Tax rate changes (1) lower tax rates could encourage workers to move to another country to take advantage of lower taxes (1) / entrepreneurs could be encouraged to move to a lower tax economy (1).
Regulation changes (1) could limit movement of labour or capital (1).
Level of education (1) could make labour more occupationally mobile (1).

203. Discuss whether or not increased investment is beneficial to an economy

Why it might be beneficial:

- Investment is the purchasing of capital goods which increase a country's productive capacity / supply-side capacity of the economy
- Investment increase total demand
- Investment increase demand for workers, decrease unemployment, increase income
- Increase spending on research and development and increase productivity
- Create economic growth

Why it might not be beneficial:

- Investments may lead to inflation (demand-pull) in the short run
- Investments on capital goods has an opportunity cost of consumer goods production
- Investments sacrifices current living standards for future living standards
- Foreign investments might be very uncertain – knows no loyalty – very mobile.
- Capital goods may be a substitute for labour, which creates unemployment.

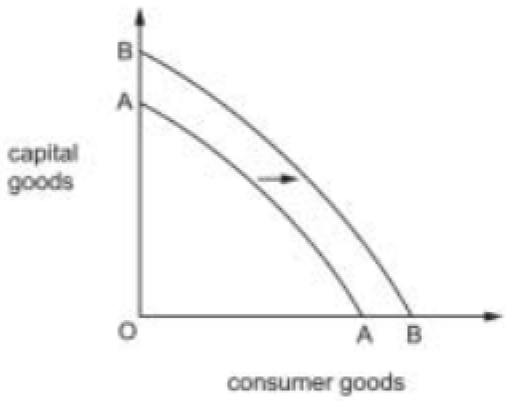
204. State two benefits of free trade.

Increase choices, more competition, lower prices, more specialisation

205. Explain two reasons why governments levy taxes.

To be able to fund government spending (1) types of government spending (1) to improve standards of living (1).
To be able to control inflation (1) fiscal policy (1) reducing total demand (1).
To reduce inequality (1) tax the rich and help the poor (1).
To discourage the consumption of demerit good (1), to improve allocation of resources / reduce external cost (1) to change external costs to private costs (1) e.g. reduce pollution (1).
To reduce imports (1) to protect home producers (1).

206. Analyse, using a production possibility curve (PPC) diagram, the impact of higher labour productivity on an economy.



Up to 4 marks for the diagram:
Axes correctly drawn (1)
Initial curve or line sloping downward drawn to the axes (1)
New curve or line sloping downward drawn to the axes (1)
Shift to the right indicated by arrow or lettering (1).

Up to 2 marks for coherent analysis which might include:
Higher labour productivity will increase output per worker (1) increase productive capacity (1).

207. Discuss whether or not MNCs always benefit their host countries

Why they might:

- bring in more investment
- increase total demand and economic growth
- provide more employment opportunities
- bring in more foreign capital and more advanced machinery.

Why they might not:

- MNCs might exploit local workers, pay low wages / provide low quality working environments
- most profits of MNCs not reinvested back into the domestic economy but brought back to home country
- big MNCs may meddle with domestic policy making.

208. Define profit maximisation.

When a firm produces at the level of output (1) which makes the highest profits for the firm (1).

When a firm produces where the gap between TR and TC (1) is largest (1).

Reward, but do not expect, produce at a point where MC = MR

209. Explain two types of mergers

Horizontal (1) when two or more firms from the same industry and the same stage of production merge (1).
Vertical (1) when two or more firms from the same industry but different stage of production merge (1).
Conglomerate (1) when two or more firms from different industries merge (1).

210. Analyse how fiscal policy can encourage firms to produce more

Reduce corporation tax (1) could lead to more profits after tax (1) enabling firms to invest more and expand (1).
Reduce income tax (1) could increase spending (1) raise total demand (1) encouraging firms to produce more (1).
Increase government spending (1) such as increasing subsidies (1) could lead to firms being able to expand production (1) decreasing cost of production (1) decreasing prices (1) increasing demand for the firms' products (1).

211. Discuss whether or not maximum prices are beneficial.

Why maximum prices will be beneficial:

- More affordable products
- More choices for consumers
- Less poverty
- To prevent exploitation of consumers by producers – especially monopolies
- Firms forced to become more efficient to be able to make profit.

Why maximum prices will not be beneficial:

- Producers will not want to supply that much
- Firms leave the market
- Could lead to shortage
- Black market creation
- Less choices for consumers

212. Define market failure.

Market failure is when the market mechanism / price mechanism / demand and supply (1) does not lead to an efficient allocation of resources (1).

213. Explain two influences, other than weather, that could affect the demand for a product.

Price of substitutes (1) If the price of substitutes increase, demand for the product will increase or vice versa (1).
Price of complements (1) If the price of complements increase, demand for the product will decrease or vice versa (1).
Expected future prices (1) if the price is expected to increase in the future, demand for the product will increase now or vice versa (1).
Advertising (1) if there is a successful advertising campaign, demand will increase (1).
Income (1) if income increases, demand will increase for a normal good or vice versa (1).
Change in price (1) if price increases, demand will contract, vice versa (1).

214. Analyse the possible effects of a shortage of a product such as energy on an economy

Low supply (1) high prices (1) increase cost of production for firms (1). Cost-push inflation (1) firms might try to cut cost (1) by firing workers (1) increase unemployment (1).
Increase price of goods and services (1) decrease affordability (1) decrease demand for goods and services (1) decrease standards of living (1).
More imports to address shortage (1) less production (1) leading to lower growth rate (1).

215. Discuss whether or not workers benefit from division of labour.

Why it is a benefit:
- saves time
- increased skills
- increased productivity
- increased wages

Why it is not a benefit:
- increased boredom
- limited skills
- lack of motivation
- lack of occupational mobility
- overdependence on others

216. State the formula for calculating the price elasticity of supply (PES)

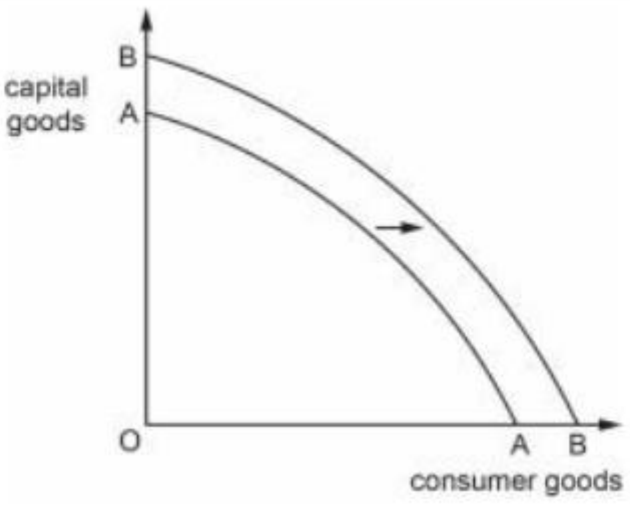
$$\frac{\text{\% change in quantity supplied}}{\text{\% change in price}} \text{ (2).}$$

OR
Percentage change in quantity supplied divided by percentage change in price (2).

217. Explain how opportunity cost is different for economic goods and free goods.

Economic goods have an opportunity cost (1) resources are used to produce them / resources have alternative uses / if resources are used to produce one economic good, they cannot be used to produce another good / in limited supply (1).
Free goods do not have an opportunity cost (1) resources are not used to produce them / there is no restriction on their supply (1).

218. Analyse, using a production possibility curve (PPC) diagram, the effect of an increase in enterprise on an economy.



Enterprise is a factor of production / resource (1) there will be more risk takers / decision makers / firms (1) more enterprise increases productive capacity / potential / maximum output that can be produced / causes economic growth (1).

219. Discuss whether or not skilled workers are always paid more than unskilled workers.

Why they might be:

- skilled workers may be in shorter supply as they may require training and qualifications
- skilled workers may be in inelastic supply and demand for them may be inelastic
- skilled workers may be in higher demand as they will be more productive
- skilled workers may have stronger bargaining power
- skilled workers may be more likely to work in the tertiary sector
- Skilled workers may be more mobile.

Why they might not be:

- skilled workers may have less experience and may be in less promoted positions
- skilled workers may be in declining industries
- skilled workers may place more importance on non-wage factors when deciding what jobs to do
- skilled workers in poorer countries may have lower wages than some unskilled workers in richer countries.

220. Define total revenue.

The total income / money received (1) from a firm's sales (1).

OR

Price (1) multiplied by quantity sold (1).

221. Explain two differences between capital and labour.

Capital is a human-made resource / factor of production / machines (1) labour is a human resource / factor of production / workers / type of worker (1)
Capital is increased by investment (1) labour is increased by e.g. rises in population (1)
The quality of capital is improved by advances in technology (1) the quality of labour is improved by e.g. better education (1)
Capital is paid interest (1) labour is paid wages (1).
Capital can be a fixed cost (1) whereas labour can be a variable cost (1).
Capital can be a one-off investment (1) wages are paid regularly (1).
Labour tends to be mobile (1) capital tends to be immobile (1).
Capital can work for 24 hours (1) workers have breaks / work for less than 24 hours (1).

222. Analyse the possible effects on consumers of a merger between two paper-producing firms.

This would be a horizontal merger (1) it may enable the merged firm to take greater advantage of economies of scale (1) so lower average costs of production (1) which may lower prices (1) enabling consumers to buy more / save more (1).
The merger may increase profits (1) allowing the merged firm to spend more on e.g. R&D (1) gain new ideas (1) increase investment (1) consumers may gain from a rise in the quality of the product (1) new products may be produced(1).
The merger may reduce competition / result in a monopoly (1) which may increase prices (1).
If the merged firm is a monopoly it may restrict supply / result in outlets being shut down (1) making it more difficult for consumers to obtain the product (1) may reduce choice (1) may result in diseconomies of scale (1).
A reduction in competitive pressure (1) may reduce the quality of the product (1).

223. Discuss whether or not demand for coffee is likely to rise in the future.

Why it might:

- incomes may rise increasing people's ability to buy coffee
- price may fall (due to e.g. subsidies) increasing people's willingness and ability to buy coffee
- the quality of coffee may rise
- population may increase.

Why it might not:

- price of substitutes, such as tea / coffee produced by other countries, may fall so people may switch away from drinking coffee
- there may be a health report suggesting that drinking coffee is harmful to health
- the price of complements, such as milk, may rise
- taxes / tariffs may be imposed on coffee
- Less may be spent on marketing.

224. Define gender distribution.

The number of males compared to the number of females in the population / the ratio of males to females in the population (2).
The sex distribution / sex ratio (1).

225. Explain two benefits of a higher economic growth rate.

Higher incomes / output (GDP) / spending (1) better living standards (1)
Reduced poverty (1) able to afford basic necessities / more goods and services available (1)
Reduced unemployment (1) more jobs created (1)
Increased tax revenue (1) providing more funds to spend on education/healthcare (1)
Higher confidence (1) increase investment (1).
Attract MNCs (1) due to higher total (aggregate) demand (1).
Higher exports (1) may exceed higher imports / may improve the current account position (1).
Increase the country's economic power (1) e.g. in trade negotiations (1).

226. Analyse the disadvantages of a rapidly growing population.

A rapidly growing population may deplete resources more quickly (1) reducing the country's ability to grow in the future / reduce the sustainability of growth (1)
A rapidly growing population may take the population beyond the optimum level / overpopulated (1) reducing income / GDP per head (1) may cause overcrowding (1).
May be pressure on food supplies (1) pollution may increase (1) may put pressure for government spending to rise (1).
A rapidly growing population will increase dependents (1) if due to a rise in the birth rate (1) more resources will have to be devoted to providing e.g. primary education (1) some parents may leave the labour force (1).
If the rise in population is due to a fall in the death rate (1) more pensions may have to be provided (1) increased cost of healthcare (1) taxes may have to be raised (1)
If the rise is due to net immigration (1) there may be an increased burden on housing and healthcare (1).

227. Discuss whether or not a cut in the rate of interest will increase investment.

Why it might:
- it may increase consumer spending as there will be less reward from saving, which may encourage firms to increase their output
- it will reduce the cost of borrowing to purchase capital goods
- firms may be encouraged to invest rather than save
- MNCs may be attracted into the country as investment will be cheaper.

Why it might not:
- the rate of interest may still be high / may be expected to rise in the future
- firms may be pessimistic about the future
- firms may be working with spare capacity
- the cost of capital equipment may rise
- lower saving may reduce funds available for investment
- banks may be reluctant to lend.

228. State two reasons for levying taxes.

- raise revenue
- redistribute income
- discourage consumption of demerit goods
- reduce imports
- reduce / influence total demand / influence economic activity / reduce inflation.

229. Explain the difference between a progressive tax and a regressive tax

A progressive tax takes a larger proportion (1) of the income of the rich / of income as it rises (1) falls more heavily on the rich (1) make income more evenly distributed (1) direct taxes are often progressive (1) example (1).
A regressive tax takes a larger proportion (1) of the income of those on low income / falls as income rises (1) falls more heavily on those on low income (1) make income less evenly distributed (1) indirect taxes are often regressive (1) example (1).

230. Analyse how a cut in in the rates of corporation tax and income tax may influence the number of MNC's setting up in the country.

Firms will be able to keep more of their profits (1) firms may be profit motivated/seeking to maximise profits (1) MNCs will compare the profits they can earn in a number of countries (1) lower corporation tax will enable them to invest more / expand (1) pay higher dividends (1).
Lower income tax will increase disposable income (1) may increase demand for consumer goods (1) increase the market for the MNCs products (1) may reduce pressure for wage rises (1) may make workers more motivated and so more productive (1).
Lower tax revenue may reduce a government's ability to spend (1) on e.g. education and healthcare (1) this may reduce labour productivity (1) which may increase MNCs' costs (1).

231. Discuss whether or not people in a high income country always enjoy a higher living standard than those in low income countries.

Why they might:

- may be able to enjoy more / better quality goods and services
- may receive good healthcare and so enjoy long life expectancy
- may enjoy good education and so have more choices
- working conditions may be better with less workers in jobs involving hard physical labour / more people working in the tertiary sector
- may be able to save, providing security for the future.

Why they might not:

- income may be unevenly distributed and some people in the population may be living in poverty, some may be unemployed
- pollution levels may be higher in the country
- people may be working longer hours, having less leisure time, more stressed
- some of the products produced in high income countries may be demerit goods
- may be high cost of living
- may have high tax rate

232. Define a floating foreign exchange rate.

The price of a currency (1) determined by market forces (1).

233. Explain two benefits a government may gain from the growth of the private sector.

Higher tax revenue (1) private sector may be more efficient / private sector may earn higher profits / higher tax revenue may be spent on e.g. education (1).

Lower government spending on supporting state-owned enterprises (1) spending could rise on other areas e.g. healthcare (1).

Increases employment / reduces unemployment (1) which is a government objective / reduces government payments on unemployment benefits (1).

234. Analyse why a country with low costs of production may experience a decrease in its exports.

The foreign exchange rate may increase (1) leading to higher export prices (1).

The quality of the products produced may fall (1) reducing demand (1).

Incomes abroad may have fallen (1) reducing foreigners' ability to buy exports (1).

There may be a rise in competition (1) with foreign firms having even lower costs (1).

Producers may charge higher prices (1) leading to a fall in demand (1).

Foreign countries may implement protection measures (1) e.g. tariffs (1).

235. Discuss whether or not a government should prevent a fall in its country's foreign exchange rate.

Up to 5 marks for why it should:
A fall in the exchange rate would increase the price of imports (1) this will increase the price of imported raw materials (1) this will increase costs of production (1) inflation may occur (1).

A rise in the price of finished products (1) will reduce the goods and services people can buy (1) reduce living standards (1).

A fall in the exchange rate may reduce confidence in the country (1) this may reduce investment (1).

A lower exchange rate may increase debt repayments (1) making it more difficult for firms and the government to pay back loans (1).

Higher government spending on e.g. state benefits (1) will increase disposable income (1) some of this might be spent on imports (1).

Up to 5 marks for why it should not:
A lower exchange rate will reduce the price of exports (1) more exports may be sold (1) this combined with lower imports may improve the current account balance (1).

Demand for domestic products may rise (1) this may increase output (1) so cause economic growth (1) reduce unemployment (1).

236. When is a market in equilibrium?

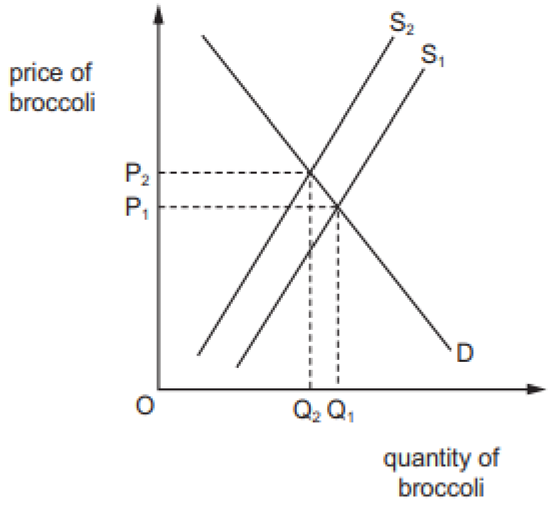
When demand equals supply / when there is no pressure for price to change (2). When it is in balance (1).

237. Explain how a rise in the price of food would affect a country's consumer prices index (CPI).

CPI is a measure of inflation (1) Demand for food is inelastic / **necessity** (1).

A rise in price of food would cause an increase in inflation / CPI (1). Food is an item in the CPI (1) it has a relatively high weighting (1) people spend a relatively high proportion on food (1) proportion declines as income rises (1).

238. Analyse, using a demand and supply diagram, how bad weather is likely to affect the market for broccoli.



Up to 4 marks for the diagram:
Axes correctly labelled – price and quantity or P and Q (1).
Demand and supply curves correctly labelled (1).
Supply curve shifted to the left (1).
Equilibriums – shown by lines or e.g. E1 and E2 (1).

Up to 2 marks for written comments:
Bad weather will destroy crops / reduce supply of broccoli / quantity traded falls (1).

Weather is an important influence on the supply of agricultural products / cost of producing broccoli will rise / price will rise (1).

239. Discuss whether or not a higher inflation rate will benefit producers.

Up to 5 marks for why it might:
Producers may receive higher prices / **revenue** for their products (1) if costs rise by less (1) profits will rise (1) **may encourage investment (1) expand the business (1).**

Producers may be able to borrow more cheaply (1) the burden of past debts will fall (1) if the rate of inflation is above the rate of interest (1).

An inflation rate may rise from a low or negative rate (1) and this would provide a greater incentive for producers (1).

Higher inflation rate in other countries (1) will make this country's products more competitive (1).

If demand is inelastic (1) a rise in price will increase revenue (1).

Higher inflation will reduce the cost of borrowing (1).

Up to 5 marks it might not:
If cost of production rises (1) output may fall (1) firms' profits may fall (1).

Producers may have to spend time adjusting prices (1) menu costs (1).

A lower and stable rate of inflation (1) may increase the confidence of producers (1).

Producers may find it more difficult to export abroad / exports may fall (1) lower revenue (1).

Producers may find it harder to assess relative prices (1) and so may make inefficient decisions (1).

240. Define a loss.

Costs exceed revenue (2).
Insufficient revenue / costs too high (1).

241. Explain, giving examples, the difference between an internal economy of scale and an external economy of scale.

Internal economy is the benefit a firm gains from itself (1) e.g. buying economies (1).

External economy is the benefit a firm gains from the industry (1) e.g. ancillary industries (1).

242. Analyse how a government could increase the supply of enterprise.

The government could spend more on education and training (1) this will increase people's skills (1) may increase their ability to start up or run a business (1).

The government could cut the rate of the tax on profits (1) provide grants / loans / subsidies (1) this would increase the incentive to be an entrepreneur (1).

The government could sell off assets to the private sector / privatise (1) increasing the opportunity to be an entrepreneur (1).

Relax immigration laws (1) immigrants may set up new businesses (1).

243. Discuss whether or not consumers would benefit from a firm changing from being a public limited company to a public corporation (state-owned enterprise).

Up to 5 marks for why they might:
A public corporation's main goal may be social costs and benefits (1) may be subsidised by the government (1) it may charge a low price (1) making it more affordable (1).

A public corporation may be less likely to go out of business (1) ensuring continuity of supplies (1).

A public corporation may take a longer-term view (1) investing in new technology (1).

A public corporation may follow health and safety rules / regulations (1) increasing the safety of products (1).

Up to 5 marks for why they might not:
A lack of profit motive (1) may increase inefficiency (1).

A public corporation is likely to be a monopoly (1) the lack of competition (1) may result in higher prices (1) lower quality (1).

A public corporation may lack funds to invest (1) during periods of recession (1).

244. Identify two functions of money.

- Medium of exchange
- Store of value
- Unit of account (measure of value)
- Standard of deferred payments

245. Explain two reasons why a central bank may want to reduce borrowing.

It may want to reduce the inflation rate (1) caused by too much demand arising from borrowing (1).

To reduce disposable income (1) and reduce (demand-pull) inflation (1).

it may want to reduce a current account deficit (1) people may be spending too much on imports (1).

Over lending by commercial banks (1) puts banking system at risk (1).

246. Analyse why skilled workers are usually paid more than unskilled workers.

The demand for skilled workers is likely to be higher (1) due to their higher productivity / education (1) expectation of a higher rate of return / sales (1) better quality goods and services (1) resulting in greater profits (1).

The supply of skilled workers is likely to be lower / more inelastic (1) due to the shortage of people with skills / qualifications (1).

Skilled workers may have more bargaining power (1) harder to replace / may cause more disruption by taking industrial action (1).

247. Discuss whether or not a rise in the rate of interest will reduce economic growth.

Up to 5 marks for why it might:
It may discourage spending (1) as it would be more expensive to borrow (1) more rewarding to save (1) this will lower total (aggregate) demand (1) which could reduce firms' output (1).

It may discourage investment (1) as more expensive to borrow (1) firms decide to save the money (1).

Higher interest rate may cause exchange rate to rise (1) discouraging exports / encouraging imports (1).

Up to 5 marks for why it might not:
People / firms may still be prepared to borrow if they are optimistic about the future (1) thinking they will be able to repay (1) because they expect e.g. higher income in the future (1).

The rate of interest may still be low (1) and may be below the inflation rate (1).

A higher rate of interest may reduce inflation (1) this could make domestic products more price-competitive (1) and so increase exports (1).

Government spending (1) increased exports (1) may offset reductions in consumption and investment resulting in higher economic growth (1).

248. Define a multinational company.

A firm that produces / operates (1) in more than one country (1).

A firm that has its headquarters in one country (1) but also produces / operates in other countries (1).

249. Explain two disadvantages a worker could experience from specialising.

Monotony / boredom / **lower efficiency** (1) doing the same task over and over again (1).

Workers may not develop a range of skills (1) this may limit their earning potential (1).

Workers may become dependent on other workers (1) this may reduce their earning potential (1).

There may be a greater risk of unemployment (1) which could lead to lower income / living standards / due to lack of wider skills (1).

250. Analyse how a change in the PED for its products may benefit a firm

A more elastic demand (1) would mean that the firm could raise revenue (1) by lowering price (1) profit would rise (1) if revenue rises by more than costs (1).

A more inelastic demand (1) would mean the firm could raise revenue (1) by raising price (1) profit would rise (1) if a lower output increases the gap between revenue and cost (1).

251. Discuss whether or not the government should subsidise the production of books.

Up to 5 marks for why it should:
A subsidy would increase the supply of books / reduce costs of production (1) lower their price (1) and cause demand to rise (1).

More books being purchased may raise education standards / literacy (1) increase productivity (1) raise output / result in economic growth (1).

A subsidy may reduce the price of school textbooks (1) reducing the cost of education (1).

Some publishers may be making a loss (1) and may be in danger of going out of business (1) this would cause unemployment (1).

Up to 5 marks for why it should not:
Some book publishers may be making high profits (1) and so do not need a subsidy (1).

The subsidy may encourage the book publishers to become inefficient (1) not cutting their costs (1) and improving the quality of the books they produce (1).

There will be an opportunity cost involved (1) e.g. spending on education (1).

Waste of resources (1) e.g. growth of internet / e-books (1)

There may be an external cost (1) e.g. trees (1).

Certain books should not be subsidised (1) example (1).

252. Identify two fiscal policy measures.

- Government spending
- Taxation

253. Explain two reasons why the unemployment rate may be higher in one country than another.

Total demand may be lower (1) higher **cyclical unemployment / recession (1).**

Lower labour mobility (1) causing structural unemployment (1).

Greater pace of technological advancement (1) replacing labour / causing structural unemployment (1).

Greater voluntary unemployment (1) due to higher benefits (1).

Labour force growing faster than economy (1) creating shortage of jobs (1).

Lower education standards (1) means workers are less employable (1).

Labour market restrictions (1) may make employing workers more expensive (1).

254. Analyse how supply-side policy measures may reduce unemployment.

Supply-side policy measures increase productive capacity within the economy (1).

Education and training (1) could raise the skills of workers (1) labour productivity could rise (1) firms may be encouraged to take on more workers (1).

A cut in income tax (1) may increase total (aggregate) demand (1) causing firms to produce more (1) and so take on more workers (1) it may also have an incentive effect (1).

A cut in unemployment benefit (1) may encourage more of the unemployed to take jobs (1) if wages are now higher than benefits (1).

Privatisation (1) could result in an expansion of firms (1) if they are more competitive (1) and so they may take on more workers (1).

Subsidies (1) will lower costs of production (1) encouraging firms to expand (1) employ more workers (1).

Trade Union reforms (1) may encourage firms to employ more workers (1) e.g. cheaper / more flexible labour force (1).

255. Discuss whether or not a government should protect its country's industries from foreign competition.

Up to 5 marks for why it should:
The industries might be infant industries (1) not able to take full advantage of scale (1) and so not able to compete on price (1).

The industries may be declining industries (1) if they go out of business quickly, unemployment may increase (1).

The industries may be facing dumping (1) which will make it difficult for firms to compete against foreign producers selling at below cost price (1).

The government may want to reduce a current account deficit (1) caused by imports exceeding exports (1) encourage economic growth (1) create more jobs (1).

Up to 5 marks for why it should not:
It may push up the price of imported products if tariffs are used (1) costs of production may rise (1) causing inflation (1) consumers' purchasing power would fall (1).

It may reduce competition for domestic firms (1) this may reduce efficiency (1) raise prices (1) reduce quality (1).

Other countries may retaliate (1) reduce exports (1).

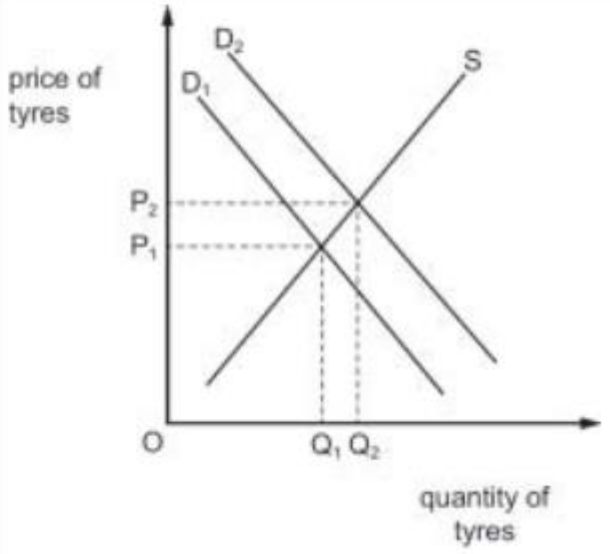
Opportunity cost (1) e.g. resources could be used to support education / healthcare / infrastructure (1).

Free trade may result in lower prices (1) greater variety for consumers (1).

256. Explain what effect more firms producing tyres would have on the PED of individual firms' tyres.

Will increase competition (1) more substitutes will be available (1) a rise in the price of one firm's tyres would cause people to switch to other firms' tyres (1) demand would become more elastic (1).

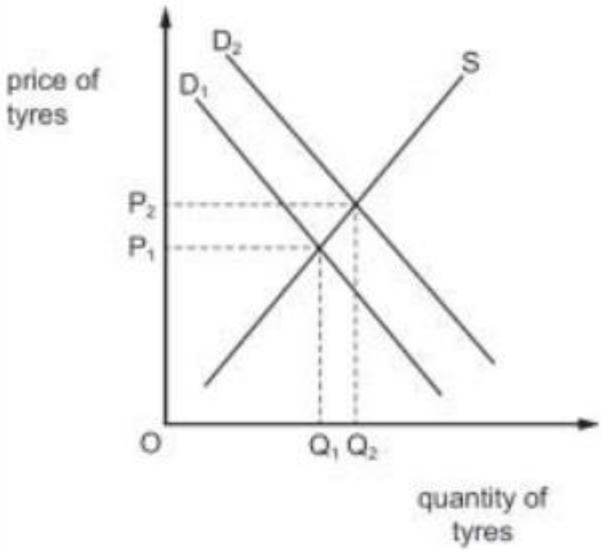
257. Analyse, using a demand and supply diagram, the effect of an increase in demand for cars on the market for tyres.



Up to 4 marks for the diagram:
Axes correctly labelled – price and quantity or P and Q (1).
Demand and supply curves correctly labelled (1).
Shift in the demand curve to the right (1).
Equilibriums correctly identified either by lines or by e.g. E1 and E2 (1).

Up to 2 marks for written analysis:
Price of tyres will increase / quantity traded will rise (1).
Tyres are a complement of cars (1).
More tyres may be purchased by drivers / car firms (1).

258. Analyse, using a demand and supply diagram, the effect of an increase in demand for cars on the market for tyres.



Up to 4 marks for the diagram:
Axes correctly labelled – price and quantity or P and Q (1).
Demand and supply curves correctly labelled (1).
Shift in the demand curve to the right (1).
Equilibriums correctly identified either by lines or by e.g. E1 and E2 (1).

Up to 2 marks for written analysis:
Price of tyres will increase / quantity traded will rise (1).
Tyres are a complement of cars (1).
More tyres may be purchased by drivers / car firms (1).

259. Discuss whether a large firm will earn more profit per unit sold than a small firm.

Up to 5 marks for why it might:
May be able to take advantage of economies of scale (1) examples (2) lower average cost (1) permitting a lower price to be charged raising sales / enabling more profit to be made even if the price charged is the same (1).
May have funds available to spend on advertising (1) create a brand image / brand loyalty (1) allowing the firm to raise price (1).
May have more market power (1) may be able to keep competitors out of the market/have high barriers to entry (1) allowing the firm to raise price (1).

Up to 5 marks for why it might not:
Large firm may experience diseconomies of scale (1) examples (2) higher average cost (1).
Small firms may be subsidised by the government (1) lower average cost/extra source of revenue (1).
Small firms may be producing a new product (1) for which there may be a high demand (1).
Small firms may be in a niche market (1) consumers may be willing to pay a high price (1).
Small firms may respond quicker to a change in demand (1) reducing surpluses and shortages (1).
Small firms may provide a personal service / develop a personal contact (1) increasing demand / enabling a higher price to be charged (1).

260. Identify two methods of trade protection other than tariffs.

- quotas
- embargoes
- voluntary export restraint
- red tape / bureaucracy / artificially high standards
- subsidies

261. Explain how market forces will eliminate a surplus and shortage

A surplus will be eliminated by a fall in price (1) demand will rise / supply will fall (1).
A shortage will be eliminated by a rise in price (1) demand will fall / supply will rise (1).

262. Analyse how improvements in education can affect the pattern of employment.

May be more skilled workers (1) increase qualifications (1) workers may seek better paid jobs (1) jobs with better working conditions (1).
There is likely to be a reduction in primary sector employment (1) an increase in secondary / tertiary sector employment (1).
May be an increase in women in employment (1) if girls benefit from improvements in education (1).
May increase employment of teachers (1) if e.g. class sizes are reduced (1).
May encourage an increase in migrant workers (1) attracted by better education for their children (1).

263. Discuss whether or not the imposition of import tariffs by a country will reduce its unemployment.

Up to 5 marks for why it might:
Import tariffs may raise the price of imports (1) demand for imports may fall (1) consumers may switch to domestic products (1) firms may increase output (1) take on more workers (1).
Tariffs can protect infant industries (1) allow them to grow (1) and employ more workers (1).
Tariffs can protect declining industries (1) reduce structural unemployment (1).
Tax revenue may increase (1) example of higher government spending that could reduce unemployment (1).

Up to 5 marks for why it might not:
Other countries may retaliate (1) imposing tariffs on this country's exports (1) employment in the export industries may fall (1).
Tariffs on imported raw materials (1) will increase costs of production (1) this may lead to higher prices of domestic products (1) causing a fall in demand (1).
Imports may not have domestic substitutes (1) price of imports may still be lower (1) so consumers may continue to buy imports (1) demand for imports may be price inelastic (1).

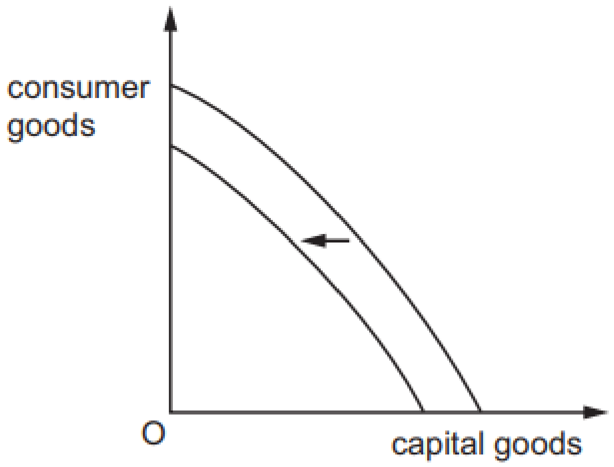
264. Define a capital good.

A human-made good (1) used to produce other goods and services (1).

265. Explain two causes of an increase in a country's HDI.

- an increase in GDP / GNI / income per head (1) raises the goods and services people can consume / due to e.g. higher employment (1)
- an increase in life expectancy (1) indicates better healthcare / due to better healthcare / more investment in healthcare (1)
- an increase in education / mean and expected years of schooling (1) increases job opportunities / quality of life / due to government investing more in education (1)

266. Analyse, using a production possibility curve (PPC) diagram, the effect of damaging weather on an economy.



Up to 4 marks for the diagram:
- axes correctly labelled in terms of two different products or types of products (1)
- initial curve or downward sloping line is drawn to the axes (1)
- second curve or downward sloping line is drawn to the axes (1)
- An indication either by labelling or an arrow that the curve has shifted inwards / left (1)

Up to 2 marks for written analysis:
Bad weather will reduce the quantity of resources (1).
The amount that can be produced with fewer resources will fall (1).

267. Discuss whether countries with a high Gross Domestic Product (GDP) per head will have a faster rate of economic growth than countries with a low GDP per head.

Up to 5 marks for why they might:
They are likely to have good education (1) good healthcare (1) this will mean skills will be high (1) productivity will be high (1) there may be advances in technology (1) reducing costs of production (1) exports may increase (1).
Unemployment may be low (1) with most resources being used (1).
MNCs may be attracted to set up in the country (1) contributing to the country's output (1).
Foreign banks may be more willing to lend to the countries' firms (1) allowing them to expand (1).
High incomes are likely to mean high demand / high consumer spending (1) encouraging firms to produce more (1).

Up to 5 marks for why they might not:
Countries with a low GDP per head may discover raw materials (1) which may be in high world demand (1).
People in poorer countries may have more drive to improve their living standards (1) they may work harder (1).
Richer countries may have a lower rate of population growth or declining populations (1) this may mean their labour forces are growing more slowly (1) restricting their ability to produce more goods and services (1).
Other factors may influence economic growth (1) e.g. type of government policies pursued / deficit on the current account of the balance of payments (1).

268. Identify two supply-side policy measures.

- a cut in income tax
- a cut in corporation tax
- a cut in unemployment benefit
- education
- training
- privatisation
- deregulation
- subsidy
- legislation to reduce trade union power

269. Explain two ways a government could reduce relative poverty.

- progressive taxation / higher direct taxes (1) which takes a higher proportion of the income of the rich (1)
- reduction of tax on basic foodstuffs / indirect taxes (1) benefiting mainly the poor (1)
- state benefits given to the poor (1) increasing their purchasing power / living standards (1)
- education and training of the poor (1) increasing their earning potential (1)
- provision of healthcare to the poor (1) increasing productivity/reducing cost of medication (1)
- provision of subsidies to firms (1) reducing unemployment / reducing prices (1)

270. Analyse the reasons why small shops may be easy to set up.

They do not take much money to set up (1) costs initially will be low (1) low fixed costs (1) it may be possible to borrow the money (1) or use savings (1).
There may be government subsidies (1) designed to encourage the growth of small firms/shops / lower costs of production (1).
Running a small shop does not require significant management skills (1) people do not need a high level of education to run a small shop (1).
May be less paperwork involved / regulations (1) reducing time and effort (1).

271. Discuss whether or not firms will benefit from a fall in unemployment.

Up to 5 marks for why they might:
A fall in unemployment will increase incomes (1) this is likely to increase total (aggregate) demand (1) firms may sell more products (1) raise firms' profits (1).
Having more workers will enable firms to increase their output (1) can respond to rising demand (1).
Lower unemployment may increase consumer confidence (1) encouraging them to spend more (1).
Tax revenue will rise (1) spending on unemployment benefit will fall (1) government may spend more in ways that will benefit firms (1) e.g. spending on training (1).

Up to 5 marks for why they might not:
Firms may find it more difficult to recruit workers (1) they may not able to fill some jobs (1) this may mean that output will be restricted/order not filled (1).
Competition for workers may drive up wages (1) increasing firms costs (1) lowering their profits (1).
Trade unions may become more powerful (1) leading to more strikes (1).
Less skilled workers may be employed (1) reducing productivity (1) raising costs (1).
Shortage of workers may force firms to use more capital-intensive production methods (1) increasing their costs (in the short run) (1).
Some firms may lose whilst others gain (1) example of a reason e.g. differences in what is being produced (1).

272. Identify two reasons why market failure may occur.

The existence of external costs (1) and external benefits (1).
Abuse of monopoly power (1) advertising distorting choice (1). Inefficient allocation of resources / not producing the right quantity / not producing at the lowest possible cost (1).

273. Explain how resources are allocated in a mixed economic system.

Resources in the public sector (1) are allocated by government decisions/directives (1) products are produced by state-owned enterprises resources are allocated to overcome market failure (1).
Resources in the private sector (1) are allocated by the price mechanism / market forces / demand and supply / firms / consumer sovereignty (1) profit provides an incentive for firms to produce what consumers demand (1).

274. Analyse how a high rate of inflation may harm the poor.

Inflation may raise the price of basic necessities (1) reducing purchasing power of the poor (1) increasing absolute poverty (1).
Inflation may reduce the value of any savings the poor have (1) reducing their ability to access e.g. healthcare, education and housing (1) reducing job opportunities (1).
Inflation may reduce the country's international competitiveness (1) lower output (1) increase unemployment (1) making it more difficult for the poor to gain jobs (1).
Inflation may reduce the purchasing power of state benefits (1) e.g. pensions or unemployment (1).
The poor may be less likely to belong to trade unions (1) less ability to raise wages (1).

275. Discuss whether or not increasing government spending will enable a government to achieve its aims for the economy.

Up to 5 marks for why it might:
Government spending will increase total (aggregate) demand (1) this may encourage firms to produce more (1) economic growth may increase (1) deflation may be avoided (1) and unemployment may fall (1) the poor may gain jobs (1) making income more evenly distributed (1).
Government spending on healthcare (1) may raise living standards / life expectancy (1).
Government spending on education (1) may improve environmental standards (1).
Government subsidies (1) may increase labour productivity (1) costs of production may fall (1) lowering cost-push inflation (1) increasing international competitiveness (1) improving the current account position (1).
Government spending on state benefits (1) may reduce income inequality (1) may raise living standards (1).

Up to 5 marks for why it might not:
Higher government spending may cause inflation (1) if total supply does not rise in line with total demand (1).
Some of the higher income created may be spent on imports (1) this may increase a current account deficit (1).
An increase in government spending on unemployment benefits (1) may increase voluntary unemployment (1).

276. State the formula used to calculate PED.

% change in quantity demanded divided by % change in price (2).
Change in demand divided by change in price (1).

277. Explain two reasons why the price of sugar may fall.

- demand may fall (1)
- supply may increase (1)
- a fall in income will lower demand (1) because of less purchasing power (1)
- a fall in population will lower demand (1) as there will be fewer consumers (1)
- a change in tastes will lower demand (1) as people may find sugar less appealing (1)
- concern about health will lower demand (1) as consumers will switch to other foods (1)
- a rise in the price of a complement (1) e.g. tea (1)
- a fall in the price of a substitute (1) e.g. sweeteners (1)
- reduction in costs of production will increase supply (1) as it is likely to lead to higher profits (1)
- subsidies will increase supply (1) as they will give an incentive to firms to produce more (1)
- a cut in indirect tax will increase supply (1) as it lowers costs (1)
- good weather conditions will increase supply (1) as less of the crop will be lost (1)
- more firms in the market (1) increasing competition in the market (1)

278. Analyse the possible reasons why a producer's fixed cost may increase.

Fixed costs are costs that do not alter with output (1) in the short run (1).
Rent may increase (1) landlords may decide to charge more for factories and offices (1).
The amount charged for insurance may increase (1) insurance companies may be seeking higher profits / their costs may have risen (1).
Interest paid on loans may increase (1) e.g. the central bank may have increased the rate of interest (1).
A firm may have moved to a larger factory / changed its production process / using more capital goods (1) leading to higher fixed capital costs (1).
Inflation may occur (1) increasing e.g. the cost of workers with long-term contracts (1).

279. Discuss whether or not a country will benefit from specialising in an agricultural product such as sugar.

Up to 5 marks for why it might:
It may increase efficiency/productivity (1) workers may be well trained in sugar production (1) advantage may be taken of economies of scale (1) lower cost (1) lower price (1) exports may increase / imports may fall (1) improving the current account position (1).
The country may have the right climate (1) to give a good crop of sugar beet/cane (1) economic growth may increase (1).
Agriculture may be labour intensive (1) creating employment for high number of workers (1).
The country may gain a reputation for high quality agricultural products (1) increasing demand (1).
May benefit if demand for the product is high (1).

Up to 5 marks for why it might not:
Demand may fall (1) due to a change in tastes (1) rise in competitors (1).
Supply may be reduced (1) by bad weather or a disease (1).
Demand for manufactured good and for services tend to increase more as income rises (1) larger profits tend to be earned on these products (1).
Diseconomies of scale may set in (1) Economies of scale tend to be more significant in manufacturing (1).
Agricultural products tend to have more trade restrictions imposed on them (1) making it more difficult to export them (1).
Market prices of agricultural products are more variable (1) farmers face uncertainty in predicting income (1).
The country may become dependent on other countries for other products (1).

280. Define a surplus on the current account of the balance of payments.

When the revenue from trade in goods and trade in services exported exceeds the revenue from trade in goods and trade in services imported (2).
When the inflow from primary income and secondary income is higher than the outflow of primary income and secondary income (2).
Exports greater than imports (1).

281. Explain two possible causes of low unemployment.

high levels of economic growth/GDP (1) output requires more workers (1)
high levels of education and training (1) acquire skills needed for jobs (1)
high levels of investment (1) high demand for workers (1)
high levels of consumer spending (1) more production / more labour (1)
high levels of exports (1) increasing demand for labour
high government spending / low taxes (1) to stimulate economic growth (1)
low interest rates (1) encouraging more consumption / investment (1)

282. Analyse how long-term unemployment can cause relative poverty.

Relative poverty is when household income is low compared to the average (median) income in that country, e.g. less than 60% of average income (1)
Long-term unemployed have very low incomes (1) cannot afford items which average households are able to (1) e.g. adequate housing, healthcare (1) may depend on government benefits (1) may be unable to provide children with good education (1) children may not be able to take up good jobs (1) productivity may be lower (1) compared to those who are better educated (1).
Savings will be used up (1) reducing the ability to escape poverty (1)
Health deteriorates (1) reducing the ability to find work (1) depression may occur (1) reducing the motivation to find work (1)

283. Discuss whether or not an increase in a surplus on the current account of the balance of payments decreases unemployment.

Up to 5 marks why it may:
More exports (1) means more output is needed (1) more workers will be needed (1) as demand for labour is a derived demand (1).
A surplus means more funds flowing into the economy (1) increasing total (aggregate) demand (1) which could generate jobs (1)
Incomes increase (1) consumption may increase (1) increasing revenue of firms (1) which could then be reinvested (1)

Up to 5 marks why it may not:
Exports may be capital-intensive (1) using less labour to produce exports (1).
A surplus in one country may create a deficit in another (1) other countries may not be able to continue buying exports (1) other countries may impose protectionist policies (1) to prevent future deficits (1).
An increase in a surplus may raise the exchange rate (1) reducing net exports (1) increasing unemployment (1).

284. Define supply-side policy.

Policy which is designed to increase the total (aggregate) output / supply / productive capacity of an economy (2).
Policy aimed at making markets work more efficiently (1) to encourage economic growth (1).

285. Explain two functions of the stock exchange

- raising capital for businesses (1) by selling shares to the investing public (1)
- mobilising savings for investment (1) through purchase of shares (1)
- funds are put into productive activities (1) in the hope of generating high returns (1)
- government finance raising (1) for development projects (1)
- share prices as a general indicator (1) of the performance of the economy (1)

286. Analyse two possible conflicts between government aims

Lower unemployment vs. price stability (1) lower unemployment means higher incomes (1) increasing total demand (1) creating demand-pull inflation (1) lower unemployment means less spare capacity (1) wage demands increase (1) wage-price spiral (1).
Economic growth vs. price stability (1) production increases (1) faster than the increase in resources (1) increase in total demand leads to higher prices rather than increased output and employment (1).
Economic growth vs. environmental protection (1) output increases (1) consumption increases (1) causing a rise in external costs (1) example e.g. pollution, destruction of habitats (1).

287. Discuss whether or not infrastructure projects will benefit the economy.

Up to 5 marks for why they might:
Infrastructure projects will employ workers directly (1)
May help reduce firms' production costs (1) example (1) increasing profits (1) increasing output (1) increasing employment (1) encouraging investment (1) increasing total (aggregate) demand (1)
Creates external economies of scale (1) reducing costs for firms within an industry e.g. better transport servicing an industry (1) improving efficiency (1)
May attract MNCs to the country (1)

Up to 5 marks for why they might not:
High cost of infrastructure projects (1) may need to raise taxes (1) or borrow large amounts (1) opportunity costs (1) funds could have been spent on e.g. health care (1).
External costs (1) e.g. pollution, habitat destruction (1)
Risk of inflation (1) due to increased government spending (1)
Short run costs may occur e.g. congestion (1) but long run benefits may arise e.g. faster travel times (1)

288. Identify two motives for consumer spending.

- to satisfy needs e.g food, shelter
- to satisfy wants e.g. luxury goods
- fear of future price rises
- to gain satisfaction from that consumption

289. Explain two benefits a firm can gain by borrowing

- it can pay running costs / unexpected expenses (1) to enable the firm to stay in business (1)
- it can invest/purchase capital (1) to lower costs/improve efficiency (1) to increase profits (1)
- it can improve products/add new products (1) by spending on R&D (1)
- it can spend on advertising (1) to increase demand/market share (1)
- in a recession, it can help to cover its costs (1) in order to stay in business, e.g. paying wages, covering debts (1)

290. Analyse two consequences of a depreciating foreign exchange rate.

- price of exports decreases (1) quantity of exports demanded increases (1) value of exports increases (1) net exports increase (1)
- price of imports increases (1) quantity demanded for imports decreases (1) value of imports decreases (1)
- current account deficit decreases / surplus increases (1) total (aggregate) demand increases (1) inflation increases (1)
- price of imported raw materials / semi-finished goods increases (1) cost of production increases (1) price level increases / inflation (1)
- discourages savers from overseas (1) who fear losing money (1)

291. Discuss whether or not a fall in interest rates will benefit an economy.

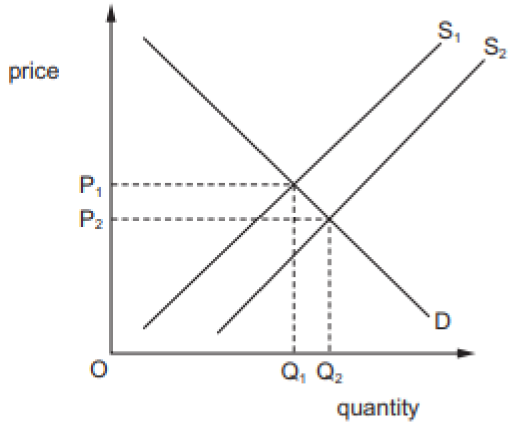
Up to 5 marks for why it might:
Cost of borrowing decreases / borrowing increases (1) may cause increase in consumption (1) investment (1) decrease in savings (1) total (aggregate) demand increases (1) economic growth (1) reduces unemployment (1).
May increase spending on research and development (1) increase productivity (1) increase potential growth (1).
Value of currency will fall (1) decrease price of exports (1) increase price of imports (1) net exports increases (1).

Up to 5 marks for why it might not:
May cause inflation (1) due to increased levels of borrowing / consumption / demand (1)
Returns from savings decreases (1) those who rely on savings will suffer (1) e.g. pensioners (1).
Value of currency will fall, increasing price of imports (1) decreases choice / reduce purchasing power (1) decrease standards of living (1) cost-push inflation (1).
Could result in firms/individuals borrowing who would not be able to repay if the interest rate rises (1) unsustainable economic growth (1).

292. Explain two reasons for growth in average earnings.

- increase in demand for goods and services (1) increase demand for workers / derived demand (1) an increase in demand would increase wages (1)
- increase in inflation (1) workers demand higher wages (1)
- trade union bargaining power (1) e.g. threat of industrial action (1)
- increased productivity of workers (1) increasing demand for labour (1)
- reduction in income tax (1) increasing disposable incomes (1)
- the legal minimum wage increases (1) the lowest paid earn more, increasing the average (1)

293. Analyse, using a demand and supply diagram, how government subsidies help firms grow.



Up to 4 marks for the diagram:
Axes correctly labelled – price and quantity or P and Q (1)
Demand and supply curves correctly labelled (1)
Shift in supply curve to the right (1)
Equilibriums – shown by lines or labels e.g. E1 and E2 (1)

Up to 2 marks for written analysis:
Will lead to a decrease in cost of production (1) output increases / price will fall (1).
Profits / revenue of firms may increase (1) profits can be reinvested (1) increasing productivity (1) increasing competitiveness of firms (1).

294. Discuss whether or not trade protection supports the growth of domestic firms.

Up to 5 marks for how it might:
Protectionism may increase the price of imports (1) making imports less desirable (1) quantity of imports demanded decreases (1) quantity of domestic goods demanded increases (1).
Protectionism may reduce the quantity of imports e.g. quotas (1)
An increase in demand for domestic goods may lead to an increase in revenue (1) and profits (1) of domestic firms, encouraging them to hire more workers (1) decreasing unemployment (1).
Trade protection can allow infant industries to grow / prevent sunset industries from declining (1) which may enable then to take greater advantage of economies of scale (1) making them more internationally competitive (1).

Up to 5 marks for how it might not:
Protectionism might lead to retaliation (1) other countries might put a protectionist policy on domestically produced goods (1) increasing the price of the country's exports / reducing the quantity allowed (1) decreasing the demand for exports (1).
An increase in price of imported raw materials may increase some firms costs of production (1) lowering profits (1).
Domestic substitute raw materials may be of a lower quality (1) which will reduce the quality of the output of domestic firms (1) may lead to lower demand (1).
Trade protection may make domestic firms complacent/less efficent (1) may become reliant on protection (1) less incentive to grow (1).

295. Define social cost.

Social cost is equal to the sum of private costs (1) and external costs (1).
Cost to the entire society (1).

296. Explain two reasons why a firm would want to specialise in producing only one product.

- a firm can specialise in what it is best at producing (1) increasing efficiency / productivity (1) achieve economies of scale (1) decrease cost of production (1) leading to higher output / higher profits (1)
- increasing global demand (1) which would raise revenue (1)
- resources are well suited to the product (1) e.g. good climate (1)
- a firm can gain a good reputation in producing the product (1) specialisation may improve the quality of the product (1) increasing demand for the product (1)

297. Analyse how the ability of firms to produce on a larger scale is beneficial to consumers.

Producing on a larger scale may enable economies of scale (1) example (1) when average costs decrease (1).
Price of the product may fall (1) enabling consumers to buy more of the product (1) improving living standards (1).
Producing on a larger scale reduces shortages (1) increases the quantity of products available to consumers (1).
Producing on a larger scale may enable more to be spent on R&D (1) increasing the quality of products available to consumers (1).

298. Discuss whether or not the operation of a market economic system is harmful to an economy.

Up to 5 marks for why it is:
Poor consumers will have little influence on what is produced (1) because they have limited purchasing power / inability to afford products (1).
Monopolies may occur (1) charging high prices (1) producing low quality (1).
Products causing external costs will be overproduced (1) overconsumed (1) example (1).
Products providing external benefits will be underproduced (1) and underconsumed (1) example (1).
Income and wealth may be unequally distributed (1) e.g. those on fixed incomes disadvantaged (1).

Up to 5 marks for why it is not:
In theory there is consumer sovereignty (1) consumers determine what is produced (1) firms respond to changes in consumer demand (1).
Competition between firms (1) and the profit motive (1) increases efficiency (1) leading to low prices (1) and high quality products (1).
A variety of products may be produced / there may be choice (1).

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299. Define labour.

The human factor of production (1) mental and physical effort (1) required for production (1).

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300. Explain two motives for saving.

- to gain interest (1) as a form of income / as a return on saving (1)
- for the future (1) e.g. for unexpected events, save for pensions (1)
- to purchase expensive items (1) e.g. cars, houses, furniture / items which can't be bought immediately (1)
- for children's education (1) to improve social mobility (1)

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301. Analyse the reasons for countries having different population growth rates

Different birth rates (1) due to different levels of income (1) different levels of education (1) different awareness of contraception / family planning (1)
Different death rates (1) because of different healthcare standards prevalance of diseases (1) different availability of hospitals/doctors (1).
Different levels of immigration / emigration (1) better standards of living/job opportunities to attract more immigrants/prevent emigrants (1).
Different levels of female labour force participation rates (1) more female labour force participation, lower birth rates (1).
Different government regulations / incentives / disincentives (1) e.g. one-child policy reducing population growth rates/tax breaks or allowances for couples with children (1).
Different cultural/spiritual reasons (1) example (1)

302. Discuss whether or not a rise in the working-age population, as a percentage of the total population.

Up to 5 marks why it might be:
Increase in working age population will increase the size of labour force / supply of labour (1) increasing incomes (1) consumption (1) and increasing output / economic growth (1).
Cost of labour may decrease (1) overall cost of production decreases (1) attracting foreign investments / MNCs (1) increasing aggregate demand (1)
The working age population may spend more than other age groups (1).
It will reduce the dependency ratio (1) reducing pressures on government spending (1).

Up to 5 marks why it might not be:
If birth rates are low, population might soon be ageing (1) leading to unsustainable growth (1) decreasing future output (1).
If no jobs are available, unemployment will increase (1) example of problems associated with unemployment (1).
Working-age people may be unskilled / have skills in the wrong areas (1) slows economic growth (1).
More people working may cause increased external costs (1) e.g. pollution, congestion (1).

303. Identify two reasons why an MNC may decide to start producing in a foreign country.

- access to raw materials
- cheap labour
- skilled labour
- large market
- government support
- low taxes
- avoid trade restrictions

304. Explain two reasons why someone may want to work for an MNC.

- wages may be high (1) giving high living standards (1)
- working conditions may be good (1) e.g. short working hours, good health and safety standards (1)
- training may be good (1) raising worker's future job prospects (1)
- fringe benefits may be good (1) e.g. free accommodation (1)
- more chance of promotion (1) higher earnings in the long run (1)
- Good reputation (1) prestige working for the firm / increased future employment opportunities (1).

305. Analyse how an increase in exports could improve a country's macroeconomic performance.

An increase in exports can increase export revenue (1) this may reduce a current account deficit (1).
An increase in exports will increase total (aggregate) demand (1) firms will produce more products / higher output (1) more workers will be employed (1) unemployment will fall (1) economic growth will increase / incomes will rise / higher living standards (1).

306. Discuss whether or not an increase in government spending will reduces a surplus on the current account of the country's balance of payments.

Up to 5 marks for why it might:
Higher government spending may go on imports (1) e.g. imported computers for government offices (1).
Higher government spending on e.g. state benefits (1) will increase disposable income (1) some of this might be spent on imports (1).
Higher government spending will increase total (aggregate) demand (1) this may cause inflation (1) reduce international competitiveness (1) reduce exports (1) increase imports (1).

Up to 5 marks for why it might not:
Government spending on education and training / healthcare (1) may raise labour productivity (1) reduce costs of production (1) improve quality (1) increased demand for domestically produced products (1) increase exports (1) reduce imports (1).
Government spending on infrastructure (1) may reduce transport costs (1) increasing price competitiveness (1) increasing exports (1) reducing imports (1).
The government may subsidise domestic products (1) lowering the price of domestic products (1) increasing exports (1) reducing imports (1).

307. Identify two ways a government could encourage people to spend more.

- lower taxes
- increase government spending / expansionary fiscal policy
- increase money supply
- reduce interest rates / expansionary monetary policy
- raise subsidies

308. Explain how the economic problem results in people having to make choices.

The economic problem is unlimited wants (1) but limited resources (1). As resources are limited, people cannot have everything they want / not everything can be produced / there is scarcity (1) there is an opportunity cost (1).

309. Analyse why deflation may cause a fall in output.

A fall in the price level (1) may discourage spending / reduce total (aggregate) demand (1) households waiting for prices to fall further (1) the fall in demand may reduce firms' output (1).
Deflation may reduce firms' profits (1) this may discourage investment (1) reduce demand for capital goods (1) lower the output of capital goods (1).

310. Discuss whether or not a country will suffer if its output falls.

Up to 5 marks for why it might:
Lower output may mean that people will have fewer goods and services (1) this could reduce living standards / reduce incomes (1).
Lower output may mean fewer workers are needed (1) unemployment may rise (1).
If consumers cannot buy domestically produced products (1) they may buy imports (1) exports may fall (1) resulting in a current account deficit (1).
MNCs may leave the country (1) reducing employment (1).
Tax revenue may fall (1) reducing government's ability to spend on e.g. education (1).

Up to 5 marks for why it might not:
Living standards may rise (1) if output falls by less than population (1).
A lower output may reduce external costs (1) e.g. pollution (1) destruction of sights of natural beauty (1).
Lower output may reduce demand for imports (1) improve the current account position (1).

311. Identify two reasons why someone may want to migrate to the USA.

- higher wages
- better education
- better healthcare
- better employment prospects

312. Explain two reasons why less-educated people tend to have a shorter life expectancy than people who have received more education.

- a lower income (1) worse nutrition/healthcare/housing (1)
- less well-informed (1) less likely to eat healthily / more likely to have unhealthy habits e.g. smoking (1)
- more likely to be in a more physically demanding / risky job (1) less choice of occupation due to less skills/qualifications (1).

313. Analyse how economic growth can reduce absolute poverty.

Economic growth is likely to increase employment (1) this may increase the chances of the poor gaining jobs (1) raise income (1) allow them to buy basic necessities / definition of absolute poverty (1).
Economic growth can increase tax revenue (1) this may enable the government to spend more to help the poor (1) e.g. improved education for the poor (1) higher state benefits (1).

314. Discuss whether or not a cut in the tax on firms' profits will increase employment.

Up to 5 marks for why it might:
Firms will be able to keep more of their profits (1) this may increase the incentive for them to expand their output (1) it will provide the funds to spend on expansion (1). To increase their output, firms may take on more workers (1) employment may rise in the private sector (1).
Higher profits may attract more shareholders (1) this will also increase the funds for investment (1).

Up to 5 marks for why it might not:
Firms will not expand if they have spare capacity (1) or they are worried about the future (1).
Firms may distribute extra profits to shareholders rather than invest (1).
Firms may expand by adopting more capital-intensive methods (1) may actually reduce employment (1).
May be lower tax revenue (1) example of what the government may spend less on (1) link to unemployment (1).

315. Identify two fixed costs.

- rent
- interest on past loans
- insurance
- salaries

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316. Explain two ways monopoly differs from perfect competition.

- one supplier in monopoly (1) many suppliers in perfect competition (1)
- a monopoly has 100% share of the market (1) one perfectly competitive firm will have a small share of the market (1)
- barriers to entry and exit in monopoly (1) free entry and exit in perfect competition (1)
- a monopoly is a price maker (1) while a perfectly competitive firm is a price taker (1)
- a monopolist may advertise (1) no advertising in perfect competition (1)
- there may be brand loyalty in monopoly (1) but no attachment between buyers and sellers in perfect competition (1)
- there are no substitutes in a monopoly (1) there are perfect substitutes in perfect competition (1).

317. Analyse what determines a firm's demand for labour.

Demand for the product (1) demand for labour is a derived demand (1) the higher the demand for the product, the more workers employed (1).
Productivity / high skills / qualifications (1) a rise in productivity will increase the return from employing labour / the higher skills the higher the demand (1).
Wage rate (1) a fall in the wage rate would be likely to increase the demand for labour (1).
The price (1) and productivity (1) of substitutes to labour (1) and complements to labour (1).
Production method (1) demand will be higher if production is labour-intensive (1).

318. Discuss whether or not a merger will increase profits.

Up to 5 marks for why it might:
A merger will reduce competition (1) the merged firm will have increased market share (1) this may make demand for its products more inelastic (1) may be able to raise price (1).
The new combined firm may be able to take greater advantage of economies of scale (1) so lower average cost (1) examples (2).
The new firm may be able to rationalise (1) cut out duplication (1) lower average cost (1).
There may be more ideas / sharing of ideas (1) increasing innovation / raising quality (1).
A vertical merger will provide greater control over the quality of raw materials / outlets (1).

Up to 5 marks for why it might not:
The reduction in competition may reduce competitive pressure on the new firm to keep costs low (1) and quality high (1) so demand may fall (1).
It may be difficult for the two former firms to adopt common methods of production (1) there may be duplication of equipment and staff (1).
The merged firm may experience diseconomies of scale (1) higher average cost (1) examples (2).

319. Define social benefit.

The total benefit to society of an economic activity or external benefit + private benefit (2).
A beneficial effect on society (1).

320. Explain two advantages of conserving natural resources.

- resources will last longer / decrease rate of depletion (1) future generations will be able to benefit from the resources (1)
- economic growth / development may be more sustainable (1) income may be generated over time / value may rise in the future (1)
- over use of natural resources (1) may cause external costs (1)
- tourism may increase (1) increase export revenue / employment (1).

321. Analyse how taxation could reduce market failure.

Monopolies may be taxed (1) if they exploit their market power (1) by charging high prices (1).
Production and consumption that generates external costs may be taxed (1) example (1) this will turn an external cost into a private cost (1) increase costs of production (1) reduce output (1).
Tax revenue can be used to e.g. subsidise products with external benefits (1) example (1).

322. Discuss the advantages and disadvantages of a market economic system.

Up to 5 marks for why it might:
In theory, there is consumer sovereignty (1) consumers determine what is produced (1) firms will respond to changes in demand (1).
Prices may be low (1) quality may be high (1) high efficiency (1) due to competition (1) and the profit motive (1)
A variety of products may be produced / there may be choice (1).

Up to 5 marks for why it might not:
Poor consumers will have little influence on what is produced (1) as they have little purchasing power (1).
Monopolies may develop (1) which may charge high prices (1) and produce low quality (1).
Products that provide external benefits will be under-produced (1) so under-consumed (1) example of such a product (1).
Products that cause external costs will be overproduced (1) and so overconsumed (1) example of such a product (1).

323. Define a market.

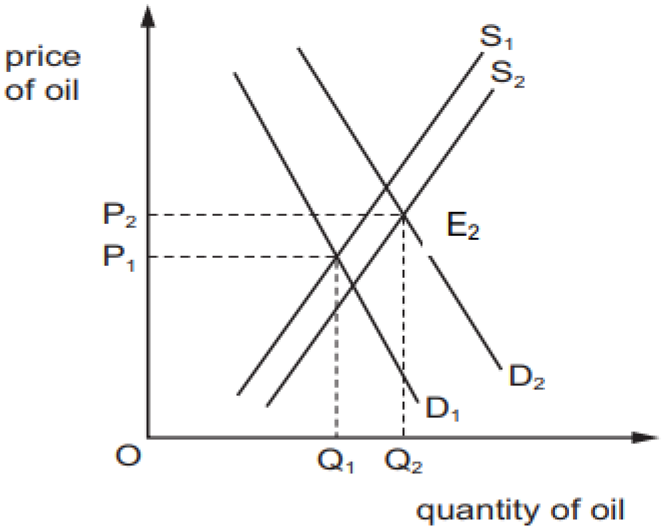
An arrangement that brings buyers and sellers into contact / products are bought and sold (2).
Buyers (1) sellers (1).
Example of the purchase and sale of products (1).

324. Explain two reasons why the supply of a raw material such as oil may rise in the future.

- New supplies may be discovered (1) after investment searching for them (1)
- Price may rise (1) giving suppliers a profit incentive to supply more (1)
- Advances in technology / cuts in wages (1) may reduce costs of obtaining the raw material (1)
- Government subsidies (1) providing finance to search for oil / greater incentive to increase output (1)

325. Analyse, using a demand and supply diagram, how the market for oil would be affected when the demand for oil increases by more than the supply of oil.

Up to 4 marks for the diagram:
Axes correctly labelled – price and quantity or P and Q (1).
Demand and supply curves correctly labelled D_1 and S_1 (1).
Demand and supply curves shifted to the right D_2 and S_2 (1).
Equilibrium – shown by lines e.g. P_2 Q_2 or at point e.g. E_2 (1).



Up to 2 marks for written comments:
More of the product will be traded / quantity will rise (1).
Price will be higher (1).

Note: Do not reward analysis marks for description of diagram e.g. price changes from P2 to P1 or quantity changes from Q1 to Q2.

326. Discuss whether or not car travel will increase in the future.

Up to 5 marks for why it might:
Price of cars may fall (1) encouraging more people to buy cars (1).
Price of petrol may fall (1) making it cheaper to run a car/petrol is a complement to cars (1).
Population may increase (1) more potential drivers (1).
More roads may be built (1) reduce time of car journeys (1).
People may live further from work (1) requiring longer journeys (1).
Driverless cars (1) may enable more people e.g. those with poor eyesight to use cars (1).
Income may rise (1) enabling people to buy and use more cars (1).

Up to 5 marks for why it might not:
Price of substitute travel may fall (1) e.g. due to government subsidising rail travel (1).
Taxes on car travel may rise (1) raising the cost of car travel (1).
Parking charges may increase (1) parking is a complement to car travel (1).
Congestion may rise (1) increasing travel time (1).
Greater concern about the environment (1) may encourage some people to switch to more environmentally friendly forms of transport (1).

327. Define perfectly inelastic supply.

A change in price causes no change in supply (2).
Correct formula (1).
A PES of 0 (1).

328. Explain TWO reasons why a firm may NOT aim to earn maximum profit

A firm may be trying to grow (1) to capture a larger share of the market/to increase pay and status of managers (1).
A firm may be trying to maximise sales revenue (1) to make it easier to grow/gain market share (1).
A firm may be aiming for a reasonable but not maximum profit/profit satisficing (1) in order to pursue other goals (1). e.g. raising wages to keep workers happy (1).
A firm may not know what output will maximise profit (1) due to lack of information about costs/demand (1).
A firm may be trying to survive (1) in difficult situations (1).
May be in public sector/charity (1) and thus have goals related to social welfare/reducing inequalities (1).

329. Analyse why Premier League footballers receive very high wages.

High demand (1) due to high demand for the services of footballers (1) many people want to watch football matches in stadiums (1) on television (1).
Football clubs receive high incomes (1) compete for players (1).
Low supply (1) have to be skilled (1) not many possess the skills (1).
Premier League players may have strong bargaining power (1) through strong professional organisation/trade union/agents (1).
To compensate for negative aspects of the job (1) e.g. risk of personal injury (1) other relevant example (1).

330. Discuss whether or not a government should spend some of its tax revenue on building sports stadiums.

Up to 5 marks for why it should:
Building sports stadiums may encourage people to participate in sport (1) increase health/living standards (1).
It can generate jobs (1) increase incomes (1) reduce poverty (1).
Sports stadiums and sporting events may attract foreign tourists (1) improve the current account of the balance of payments (1).
Generate government revenue which could be spent on e.g. health (1).

Up to 5 marks for why it should not:
It will involve an opportunity cost (1) the tax revenue could be used on e.g. education (1).
It may generate external costs (1) e.g. noise suffered by local residents (1).
The private sector may be more efficient in building the stadiums (1) profit motive (1) .
Wasteful use of government funds (1) since benefits may be mainly private benefits (1).
Those who visit the sports stadiums may be richer (1) than some of the taxpayers (1) redistribution of income from the poor to the rich (1).
Could result in a budget deficit (1) or need to raise taxes (1).

331. Define devaluation.

A fall in the value (1) of a (fixed) exchange rate (1).
Fall in value of currency (1) relative to another (1).
Fall/decrease in exchange rate (1).
Fall/decrease in currency (0).

332. Explain TWO advantages of a floating exchange rate.

It should automatically eliminate current account imbalances (1) by floating down when there is a deficit (1).
No currency reserves are needed (1) as the government will not intervene to influence the value of the currency (1).
No government intervention needed (1) as the exchange rate will be at the market price / determined by supply and demand (1).
The exchange rate is not a policy target (1) policy measures do not have to be used to influence its value (1).

333. Analyse how fiscal policy measures could reduce inflation.

A rise in taxes (1) causes a fall in disposable income/rise in costs (1) fall in government spending (1) will reduce total (aggregate) demand (1) reduce demand-pull inflation (1).
Government spending on education/training/subsidies (1) lower taxes (1) could reduce costs of production (1) will increase total (aggregate) supply (1) lower cost-push inflation (1).
Lower taxes on imports would reduce cost-push inflation (1).

334. Discuss whether or not a reduction in a current account deficit on the balance of payments will benefit an economy.

Up to 5 marks for why it might:
May mean that demand for imports has fallen (1) and/or demand for exports has risen (1) higher total (aggregate) demand (1) may increase GDP/create economic growth (1) reduce unemployment (1).
Will reduce debt (1) not have to borrow as much to finance it (1).
May cause appreciation of exchange rate (1) leading to lower inflation (1).

Up to 5 marks for why it might not:
If the deficit is reduced by buying fewer imports of raw materials (1) and capital goods (1) may reduce GDP (1) lower exports in the longer run (1).
If fewer imports are being purchased because of a recession (1) GDP will be falling (1).
If fewer imports are being purchased because trade restrictions are introduced (1) there may be retaliation (1) with tariffs/quotas being imposed one exports (1).
Higher total (aggregate) demand might lead to (demand-pull) inflation (1).
Exchange rate may appreciate (1) can reduce total demand/worsen the deficit in the long run (1).

335. Define economies of scale.

A fall in average costs (1) resulting from an increase in output/scale of production (1).

336. Explain TWO benefits consumers may gain from free trade.

Lower prices (1) increases purchasing power (1) due to greater competition or economies of scale (1).
Better quality (1) improve living standards (1) due to greater competition (1).
Greater availability/variety of products (1) products can be purchased that are not made in the domestic economy (1).
Higher exports can lead to economies of scale (1) and therefore lower prices (1).

337. Analyse how reducing transport costs could increase a country's exports and imports.

Lower transport costs may reduce costs of production (1) lower costs may reduce export prices (1) making the country's products more internationally competitive (1) increase demand for exports (1).
Could attract more MNCs to set up (1) which tend to export high proportion of output (1).
Higher export revenue would enable a country to buy more imports (1).
Lower transport costs may enable a country to specialise to a greater extent (1) this would encourage it to export the products it is good at producing (1) and import the products it is not so good at producing (1).
Lower transport costs will reduce the cost of getting imports to market (1) lower price of imports (1) increase demand for imports (1).
Lower transport costs for consumers can increase purchasing power and increase import spending (1).
Could encourage tourism (1) increasing exports and imports of services (1).

338. Discuss whether or not raising living standards is the most important economic objective for developing countries.

Up to 5 marks for why it might be:
Giving people access to basic necessities (1) may take them out of poverty (1).
Suggests higher incomes per head (1) allowing people to consume more goods and services (1).
Improving healthcare (1) reduce death rates/people more fit for work (1) *raise productivity (1) raise output/generate economic growth (1)*.
Improving education (1) may increase skills (1) *raise productivity (1) raise output/generate economic growth (1)*.
Better quality housing (1) can reduce illness (1) *raise productivity (1) raise output/generate economic growth (1)*.

Up to 5 marks for why it might not be:
Raising livings standards may cause higher inflation (1) a rising current account deficit (1).
Inflation may be more of a problem (1) costs of inflation (max 2).
Unemployment might be more of a problem (1) costs of unemployment (max 2).
Current account deficit might be more of a problem (1) costs of current account deficit (max 2).
Living standards is an average concept (1) and may be associated with rising inequality (1).
Some measures that could improve living standards such as taxing polluting firms (1) may reduce economic growth (1) and so may result in lowering living standards (at least in the short run) (1).
It may be more important to maintain living standards (1) (because) a rising population (1) may be putting pressure on resources (1).

339. Identify TWO price indices

RPI (1) CPI (1).

340. Explain TWO supply-side policy measures.

Improvements in education/training (1) to raise skills/labour productivity (1).
Cutting income tax (1) to encourage the reward for working (1).
Cutting corporation tax (1) to encourage enterprise/increase investment/lower costs of production (1).
Privatisation (1) transferring assets from the public to the private sector/to stimulate competition/improve efficiency (1).
Deregulation (1) removing rules and restrictions/increase competition/lower costs of production (1).
Subsidies (1) may reduce costs of production/stimulate output (1).

341. Analyse why a government may want to reduce its country's inflation rate.

A lower inflation rate may increase a country's international competitiveness (1) increase exports (1) reduce imports (1) improve the current account position (1).
A lower inflation rate may create greater certainty (1) encourage investment (1) increase economic growth (1).
A lower inflation rate may benefit savers (1) create funds for investment (1).
A lower inflation rate will reduce the rate at which money loses its purchasing power/value (1) protect living standards (1) make products more affordable (1) helps people on fixed incomes (1).
If cost-push inflation, total demand will fall/unemployment rise (1).
Lower inflation tends to have larger benefits for the poor than the rich (1) and helps towards reducing inequality (1).
There may be hyperinflation (1) which could lead to a breakdown in economic activity (1).

342. Discuss whether or not increasing the strength of trade unions will benefit an economy.

Up to 5 marks for why it might:
Stronger bargaining power with employers (1) may improve working conditions of workers (1) increase health and safety (1).
May raise the wages of workers (1) may reduce poverty (1) may increase labour productivity (1) through increasing worker morale/motivation (1).
May counterbalance the power of employers (1) protecting the rights of workers (1).
May provide worker training (1) increasing skills/productivity (1).

Up to 5 marks for why it might not:
May lead to more industrial disputes (1) e.g. strikes/go slows (1) reduce output (1) may discourage investment/discourage MNCs (1) which would damage long run economic growth (1).
May cause inflation (1) by raising labour costs (1) make products less internationally competitive (1) increasing a current account deficit/reducing a current account surplus (1).
Higher wage costs could reduce profits (1) raise unemployment (1).

343. Define net immigration.

More people coming to live in the country than leaving the country to live elsewhere (2).
The number of immigrants exceeding emigrants (2).
The difference between immigration and emigration (1).
People coming to live in the country (1).

344. Explain how market forces would respond to a shortage of drinking water

A shortage means demand exceeds supply (1) price would rise (1) more would be supplied (1) due to the profit motive (1) price signal sent to producers (1) demand would also contract (1). Demand likely to be price inelastic (1) leading to large rise in price (1).

345. Analyse what determines the demand for labour.

Demand for goods and services (1) demand for labour is a derived demand (1).
Productivity/skills (1) higher productivity will increase demand for labour (1).
Wage rates (1) higher wage rates will reduce demand for labour (1).
Price of capital (1) higher price may increase demand for labour if they are substitutes (1) higher price will reduce demand for labour if they are complements (1).
Non-wage costs e.g. employer's contribution to pension scheme (1) higher costs reduce demand for labour (1).
Taxes on employment of labour (1) higher taxes reduce demand for labour (1).
Government employment subsidies (1) higher subsidies will increase demand for labour (1).

346. Discuss whether or not increased government spending will increase economic growth.

Up to 5 marks for why it might:
Higher government spending will increase total (aggregate) demand (1) higher total demand may encourage firms to increase output (1).
Higher government spending on education/training (1) health (1) may raise labour productivity (1) increase productive potential/long run economic growth (1).
Higher government spending on infrastructure (1) will reduce costs of production (1) encouraging firms to expand (1).
Higher government spending on R & D (1) would lower costs/raise productive potential (1).

Up to 5 marks for why it might not:
Higher government spending may increase inflation (1) this may make products less internationally competitive (1) reducing net exports (1) reducing output (1).
Higher government spending may not increase total demand if offset by e.g. lower consumer expenditure (1).
Higher government spending may not increase total demand if it is accompanied by higher taxation (1).
Higher government spending on education/training may not increase labour productivity if it does not raise the quality of education/training (1).
Higher benefits (1) may reduce incentives to work (1).
Government spending may be spent wastefully/inefficiently (1).

347. Define regressive tax.

A tax that takes a lower percentage of the income of the rich/higher percentage of the income of the poor (2).
A tax that falls more heavily on the poor (1).
Disadvantages the poor/higher burden on the poor/higher rate for the poor (1).

348. Explain why the social benefit of healthcare is greater than the private benefit.

Social benefit includes both private and external benefits (1).
Healthcare also provides external benefits(1).
Example of private benefits identified as a private benefit e.g. profits of provider, wages of doctors, higher life expectancy of consumer (max 2).
Examples of external benefits identified as external benefits/recognised as 3rd party impacts e.g. higher labour productivity, higher output, reduction in spread of diseases (max 2).

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349. Analyse why a government imposes taxes.

To raise revenue (1) to finance government spending/example of spending (1).
To discourage the consumption of certain products (1) example/external costs (1).
To discourage the production of certain products (1) example/external costs (1).
To discourage the consumption of imports (1) improve the current account position on the balance of payments (1).
To redistribute income (1) taxing the rich more (1).
To influence economic activity (1) raising taxes to reduce total (aggregate) demand (1) to control (demand-pull) inflation (1).

350. Discuss whether or not consumers are likely to benefit from state-owned enterprises becoming private sector firms.

Up to 5 marks for why they might:
There may be more competition in the markets (1) this may force down prices (1) increase quality (1).
Firms will be influenced by the profit motive (1) this may make them more responsive to changes in consumer demand (1).
State-owned enterprises may be slow in making decisions (1) due to bureaucratic control (1) may not respond quickly enough to consumer demands (1).

Up to 5 marks for why they might not:
State-owned enterprises might have taken into account social costs and social benefits (1) rather than just private costs and private benefits (1) main goal may be economic welfare (1).
Private sector firms may merge (1) form monopolies (1) (use market power to) push up price (1) they may become complacent (1) lower quality (1).
Private sector may not have sufficient finance for large-scale projects (1) consumers would lose out on the benefits (1).

351. What may be the opportunity cost of building an airport?

Opportunity cost is the (next) best alternative foregone (1).
Relevant example e.g. building a hospital (1).

352. Explain two reasons why a government would want to turn its country from a developing into a developed country.

Developed countries tend to have higher GDP/output/economic growth (1) reduces poverty (1)
Developed countries tend to have higher living standards (1) due to earning higher incomes / higher GDP per head (1)
Developed countries may have better education (1) e.g. resulting in more skilled workers (1) so improving productivity (1).
Developed countries tend to have better healthcare (1) resulting in longer life expectancy / lower death rate (1).
Developed countries tend to have more economic power (1) stronger in international negotiations (1).
Developed countries tend to have a higher proportion of workers employed in the tertiary sector (1) which may mean better working conditions (1).
Tax revenue may be higher (1) enabling more government expenditure (1).

353. Analyse the external costs that can be caused by the building and expansion of an airport.

External costs are harmful effects on third parties / social costs minus private costs (1).
Building and operating an airport will cause noise pollution (1) air pollution (1) which will be experienced by those living near the airport (1) reducing their health (1).
Traffic congestion may be caused (1) delaying people's journeys (1).
The prices of houses close to the airport may fall (1) reducing local residents' wealth (1) local residents may be displaced (1).
Train companies may lose revenue (1) as people switch from train travel to air travel (1).
Environmental damage / global warming (1) e.g. loss of wildlife habitats (1).

354. Discuss whether people would prefer to buy a product from a small firm or a large firm.

Up to 5 marks for why they might prefer to buy from a small firm:
May be flexible (1) quick to respond to changes in consumer demand (1) as do not have to consult others (1).
May provide a personal service (1) can get to consumers and their requirements (1) adapt to particular requirements (1).
May be specialised (1) produce high quality products (1).
Small firms may receive government subsidies (1) enabling them to keep price low / quality high (1).
Unlikely to experience diseconomies of scale (1) *example* (1).

Up to 5 marks for why they might prefer to buy from a large firm:
Lower prices (1) due to lower costs (1) because of economies of scale (1) *example* (1).
Better known brands (1) due to advertising (1).
Wider variety (1) better quality (1) better after sales (1) due to more funds to invest (1).

355. Identify two examples of capital goods that may be used by a farm.

One mark each for each of two examples e.g. tractor, farm buildings.

356. Explain how a country could have a trade in goods surplus but a deficit on the current account on the balance of payments.

Trade in goods surplus means exports (of goods) exceeds imports (of goods) (1) trade in goods is only one part of the current account (1) *identification of two of the three other components* (1) there could be a larger deficit on the trade in services balance (1) *example of a service item decreasing* (1) there can be a larger deficit on income (primary) balance (1) *example of an income item increasing* (1) there could be a larger deficit on current transfers (secondary) balance (1) *example of a current transfer item decreasing* (1) or a combination of deficits on other items (1).
A current account deficit means more money will be leaving than entering the country (1).

357. Analyse the economies of scale from which a farm may benefit.

Buying (purchasing) economies (1) e.g. buying seed in bulk at reduced price (1).
Technical economies (1) using up to date / efficient equipment e.g. combine harvesters (1).
Managerial economies (1) employing specialist workers e.g. farm managers (1).
Financial economies (1) borrowing at a lower rate of interest/finding it easier to obtain a loan (1).
Risk bearing economies (1) a farm may grow a variety of crops (1).

358. Discuss whether or not developing countries benefit from producing mainly primary products.

Up to 5 marks for why they might:
May have the resources to produce high quality (1) low cost primary products (1).
If more can be exported (1) revenue can be used for development (1).
Specialisation can reduce average costs (1) increasing output (1) enabling advantage to be taken of economies of scale (1).
Demand for primary products may be increasing (1) some primary products can be sold for high prices (1) e.g. oil (1) increasing living standards (1).
May be able to raise revenue (1) as demand for some primary products, e.g. oil, is price-inelastic (1).
Countries may lack education (1) primary sector provides some unskilled jobs (1).

Up to 5 marks for why they might not:
Demand for primary products does not tend to rise as rapidly as demand for manufactured products and services (1) tend to have less valued added (1).
The production of some primary products may be adversely affected by bad weather and diseases (1) disrupting supply (1) resulting in fluctuating income (1) working conditions may be poor (1).
Developed countries may impose trade restrictions on primary products from developing countries (1).
The primary sector does not tend to offer many high skilled jobs (1) low pay (1) low living standards (1).
There are risks of overspecialisation (1) a more diversified economy would be in a stronger position to resist economic downturns (1).
Developing countries will be dependent on other countries for manufactured goods and services (1).

359. Define a substitute and give an example.

A rival product / a product that can be used instead of another (1) e.g. bus travel and car travel / oranges and apples (1).

360. Explain two advantages a firm may gain from being a monopoly.

May be able to charge high prices / price maker (1) due to lack of competition (1) enabling it to earn a high profit (1).
May produce at lower costs (1) due to economies of scale / charge lower prices (1).
May produce high quality products (1) as high profits enable it to invest and innovate (1).
May be able to compete with foreign firms (1) gain a wider market / export more (1).
May have stronger bargaining power with suppliers (1) keeping costs low (1).

361. Analyse how price elasticity of demand for a product influences the revenue a firm receives.

Formula or definition of PED (1).
If demand is elastic, a rise in price will cause a fall in revenue (1) because the quantity demanded will fall by more than the rise in price (1) in percentage terms (1) *example of type of product with elastic demand* e.g. a luxury (1).
If demand is inelastic, a rise in price will cause a rise in revenue (1) because the quantity demanded will fall by less than the rise in price (1) in percentage terms (1) *example of a product with inelastic demand e.g. one without a substitute* (1).
If demand is perfectly inelastic, a rise in price will cause an equally proportionate rise in revenue (1) because the quantity demanded will not change (1).
If demand is perfectly elastic, a rise in price will cause revenue to fall to zero (1) because people will stop buying the product (1).
If demand is unitary, a rise in price will leave total revenue unchanged (1) as the proportionate change in quantity demanded and price will be the same (1).

362. Discuss whether or not a government should subsidise bus transport.

Up to 5 marks for why it should:
A subsidy will lower costs, (1) it may encourage a rise in bus travel (1) reducing bus fares (1).
It may reduce poverty / redistribute income (1) the poor tend to use buses more than the rich (1) better quality travel (1).
Bus travel creates fewer external costs than car travel (1) reduce pollution (1) reduce traffic congestion (1) increase employment / reduce unemployment (1) increase labour mobility (1).

Up to 5 marks for why it should not:
It will involve an opportunity cost (1) the government might instead spend more on e.g. education / raise taxes (1).
Bus companies may not pass on the subsidy to passengers (1) subsidies may make bus companies complacent (1) not try to keep their costs low (1) may not improve quality (1).
Rail transport may be more efficient (1) may provide more social benefits (1) generate lower social costs (1).

363. Identify two causes of an ageing population.

One mark each for each of two from:
A fall in the birth rate (1) a fall in the death rate / longer life expectancy (1) net emigration of young people / net immigration of old people (1).

364. Explain why the price of housing may increase.

Increase in demand (1) due to e.g. increase in income / rise in population (1).
Decrease in supply (1) due to e.g. rise in costs of production (1).

365. Analyse why more women may enter the labour force.

May be a reduction in gender discrimination (1) a change in social attitudes (1) making it easier for women to get jobs (1) be promoted (1).
There may be a rise in the pay available to women (1) increasing the opportunity cost of not being in the labour force (1).
There may be a fall in the birth rate (1) making it easier for women to work (1).
There may be improvements in the education of women (1) increasing their skills / raising their earning potential (1).
There may be a rise in part-time and/or flexible employment (1) making it easier for women to combine working and caring for families (1).
Increases in the cost of living (1) may create a need for higher family income / to support their family (1).
Government measures to encourage the entry of women into the labour force (1) e.g. provision of free or subsidised childcare (1).

366. Discuss whether or not a rise in the birth rate will benefit an economy.

Up to 5 marks for why it might:
A higher birth rate will increase the labour force in the long run (1) increase the potential output (1) total (aggregate) demand may rise (1).
It will lower the average age of the population, (1) younger workers may be occupationally mobile (1) geographically mobile (1) may be able to work with the latest technology (1).
There may be rise in tax revenue (1).
If the country is underpopulated (1) better use might be made of resources in the long run (1).
Demand for products related to children will increase (1) benefiting e.g. toy industry (1).

Up to 5 marks for why it might not:
A higher birth rate will increase the number of dependents (1) resources that could have been used to e.g. increase the quality of healthcare will have to be devoted to providing more healthcare services to mothers and children (1) there will be an opportunity cost (1).
It will reduce the size of the labour force in the short run (1) as mothers leave it to have children (1).
If the country is overpopulated (1) resources may be depleted more quickly (1).

367. Define commercial bank.

A financial institution (1) that offers services to people/households/firms (1) *examples of services* (1) that is profit orientated (1) (usually) in the private sector (1).

368. Analyse what can cause deflation.

A fall in the price level could be caused by a fall in total (aggregate) demand (1). This may be due to a fall in consumer expenditure / rise in saving (1) a fall in borrowing (1) a fall in investment (1) due to e.g. a lack of confidence (1) spending may be delayed due to the expectation that prices may be lower in the future (1) deflationary demand-side policy measures (1) e.g. a rise in the rate of interest (1) rise in direct taxation (1).
Exports may fall (1) due to e.g. fall in incomes abroad (1) a rise in exchange rate (1).
A rise in total (aggregate) supply (1) due to e.g. advances in technology (1) increased investment (1) reduced costs of production (1) increase in productivity (1) supply-side policy measures (1) resulting from e.g. improvements in education and training (1).

369. Discuss whether or not government policy measures to reduce unemployment will cause inflation.

Up to 5 marks for why they might:
Increased government spending and/or lower taxes / expansionary fiscal policy (1) lower interest rates and/or increased money supply / expansionary monetary policy (1) will increase total (aggregate) demand/spending (1) may reduce cyclical unemployment / more workers may be employed to meet the higher demand (1) but may cause demand-pull inflation (1).
Higher demand may also cause cost-push inflation (1) as demand for workers rises (1) firms may compete for workers (1) causing wage rates to rise (1).

Up to 5 marks for why they might not:
An increase in demand may not push up prices if unemployment is initially high (1) firms will be able to attract more workers by just offering jobs (1) they will not have to raise wages (1).
The government may use supply side policy measures to reduce unemployment (1) e.g. improved education and training/privatisation/deregulation (1) such policy measures may reduce costs (1) may increase total (aggregate) supply by as much as total (aggregate) demand (1).
The government may use price controls (1).

370. Define import tariff.

A tax (1) imposed on products purchased from other countries / imports (1).

371. Explain two benefits of an increase in world output.

Higher output may increase employment (1) better use of resources (1).
Higher output may increase incomes (1) reduce poverty / raise living standards (1) increase choice (1).
Higher output may increase government tax revenue (1) to increase education/healthcare (1).
Higher output may include higher agricultural output (1) reduce risk of malnutrition (1).

372. Analyse how a recession may reduce a country's imports.

A recession is a decrease in GDP (1) over 6 months or more / two consecutive quarters (1).
A recession is likely to reduce incomes (1) increase unemployment (1) reduce confidence levels (1) consumer spending is likely to fall (1).
As output is falling (1) firms are likely to buy less raw materials from abroad (1) buy fewer capital goods from abroad (1).
During recessions governments may impose trade restrictions which will reduce imports (1).
A recession may cause a depreciation of the currency (1) making imports more expensive (1).

373. Discuss whether or not a developing country will benefit from the removal of trade restrictions.

Up to 5 marks for why it might:
Developing countries tend to have more trade restrictions on their products (1).
The removal of trade restrictions on the country's products can enable a country to specialise in the products it is best at producing (1) they can be sold at a lower price which may increase demand in foreign markets (1).
The removal of trade restrictions that the country imposes may mean it can purchase raw materials (1) and capital equipment (1) at a lower price (1) reducing costs of production (1).
Consumers may enjoy a greater variety of products (1) greater availability of products (1) lower prices (1) higher quality (1).
Domestic firms may respond to greater competition by becoming more efficient (1).
The removal of trade restrictions may increase inward investment / attract MNCs (1).

Up to 5 marks for why it might not:
Infant industries (1) may not be able to survive without protection (1) because they cannot take advantage of economies of scale (1).
Declining industries (1) may go out of business more quickly (1) causing unemployment (1).
Strategic industries (1) may go out of business disrupting the rest of the economy (1).
There may be dumping (1) with foreign firms selling products at below cost price (1) to drive domestic firms out of business (1) and then raising price (1).
Demerit goods may be imported (1).
May result in imports exceeding exports, (1) causing a current account deficit (1).
Tax revenue may fall (1) revenue from tariffs may account for a relatively high proportion of a developing country's tax revenue (1).

374. Identify two influences on the strength of a trade union's collective bargaining power.

- size of membership
- financial position
- level of employment
- government legislation
- willingness to take industrial action

375. Explain the likely impact of trade unions on the welfare of their members.

Increase or maintain wages of members (1) increase or maintain material standard of living (1).
Improve or maintain working conditions (1) e.g. improved safety / less stress (1).
Protect workers' rights (1) e.g. working hours / sick pay / paternity leave (1).
Protect jobs (1) reduce risk of unemployment (1).
Provide training (1) helping employees find better jobs / better paid jobs (1).

376. Analyse the impact of a reduction in government expenditure on healthcare on a country's unemployment rate.

Less spending on healthcare may result in less employment of doctors and nurses (1) causing structural unemployment (1) but may mean less skilled (cheaper) doctors and nurses employed (1) leaving unemployment rate the same (1).
Lower government spending is contractionary fiscal policy (1) this will reduce total (aggregate) demand (1) firms' output will fall (1) causing demand for labour to fall (1) as derived demand (1) causing cyclical unemployment (1).
Quantity / quality of healthcare may decline (1) this may reduce labour productivity (1) international competitiveness (1) reducing demand for the country's products and labour (1).

377. Discuss whether or not a decrease in the number of doctors will reduce living standards.

Up to 5 marks for why it might:

If there are less doctors patients may receive worse quality healthcare (1) reducing life expectancy (1).
The productive capacity of the economy could fall in the long run (1) as a result of life expectancy falling / more sick days as a result of a worse quality health service (1).
Worse healthcare can decrease productivity (1) causing wages to fall (1).
A shortage of doctors would cause their wages to rise (1) making health care less affordable / less available / poor patients can't afford it (1).

Up to 5 marks for why it might not:

Technological advancement (1) could mean the quality of healthcare is improving even though the number of doctors is falling (1) I
increased expenditure on facilities / equipment (1) could offset the impact of fewer doctors (1)
Access to healthcare is more important in determining living standards in the country (1) – there may be less doctors but if healthcare is now more affordable living standards on the whole may be rising (1).
If population is increasing (1) less need for doctors / number of doctors per head may not change (1)

378. Define import quota.

Limit (1) on quantity of good or service allowed in to a country / bought from abroad / imported (1).

379. Explain two advantages to a country of specialisation.

Generates economies of scale (1) enabling a country to be more internationally price competitive (1)
Improves productivity / efficiency (1) by producing what the country is best at (1)
Increases GDP (1) by making better use of scarce resources (1) allowing country to export more (1)
Increases purchasing power of consumers (1) who through trade can purchase goods and services from the most efficient producers (1)

380. Analyse the impact on an economy of the removal of import quotas imposed by other countries.

Likely to increase exports (1) improving the current account of the balance of payments (1).
Extra revenue earned could be spent on imports (1) increasing variety / choice (1).
Allows country to specialise more (1) making better use of resources (1).
Rising total (aggregate) demand (1) could increase the demand for labour (1) reducing unemployment (1) and causing economic growth (1).
Higher demand could cause inflation (1) demand-pull (1) reducing purchasing power (1).

381. Discuss whether or not an increase in the role of the private sector will benefit an economy.

Up to 5 marks for the benefits:

The profit incentive (1) will result in countries taking advantage of specialisation (1), making better use of scarce resources (1) and in doing so increasing total output (1).
May be an increase in competition (1) lowering price (1) raising quality (1).
More efficient allocation of resources (1) lower production costs (1) the price mechanism means there are no shortages or surpluses (1) with high consumer sovereignty (1).

Up to 5 marks for the drawbacks:

Poverty could increase (1) as a result of rising inequality (1) and some individuals being unable to access the gains of the market economic system because they are out of work / on low incomes (1)
Higher prices (1) private companies could exploit market power e.g. monopoly (1)
Goods with external benefits (merit goods) e.g. healthcare may be under-provided (1) goods with external costs (demerit goods) may be over-provided e.g. tobacco.
Market failure occurs (1) as externalities are not considered by the market mechanism (1) example (1)

382. Identify two functions of a central bank.

- Control money supply
- Issue notes
- Set interest rates
- Maintain price stability / low inflation
- Act as a lender of last resort / lend money to government / lends to commercial banks
- Ensure stability of financial system
- Manage foreign exchange reserves

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383. Explain how the Consumer Prices Index (CPI) is calculated.

A representative basket of most commonly purchased goods and services is constructed (1) the price of these goods and services is monitored over time (1) the goods and services are 'weighted' (1) according to the proportion of disposable income they account for (1) annual price changes are measured (1) and multiplied by weights (1) weighted price changes are measured against a base year (1).

384. Analyse the impact of a cut in interest rates on saving and investment.

Saving is expected to fall (1) as the return from saving falls (1), reducing opportunity cost of spending (1), causing individuals to spend more (1) and borrow more (1). Investment will rise (1) as it becomes cheaper for firms to borrow (1), reducing the cost of investment (1) and making investment more profitable (1).

385. Discuss the impact of supply-side policy measures on government expenditure and on government revenue.

Up to 5 marks for why it might increase government expenditure and decrease tax revenue:

Policies such as subsidies may be expensive (1) if funded through borrowing government spending on interest payments will increase (1) gains from supply side policies take a long time to materialise (1) meaning in the short run there may be no increase in tax revenue (1).
Cut in income tax (1) may decrease income tax revenue in short run (1).
Cut in corporation tax (1) may decrease corporation tax revenue in short run (1).
Privatisation in the long run may reduce government revenue (1) if privatised firms have been profitable (1)

Up to 5 marks for why it might decrease government expenditure and increase tax revenue:

Supply side policies will increase the productive capacity of the economy (1) which will enable long run growth to be achieved (1) and more tax revenue from sales of goods and services (1) and from higher income (1).
Income tax receipts may increase in the long run if more people are working (1) and corporation tax receipts may increase is firms are making bigger profits (1).
Spending on education and training (1) is likely to increase employment (1) reducing spending on welfare benefits (1) increasing income tax revenue (1).
Deregulation may not alter government spending and tax revenue in the short run (1) but may increase tax revenue in the long run if efficiency increases (1).
Privatisation in the short run may increase government revenue (1) from the sale of shares (1).

386. Define progressive tax.

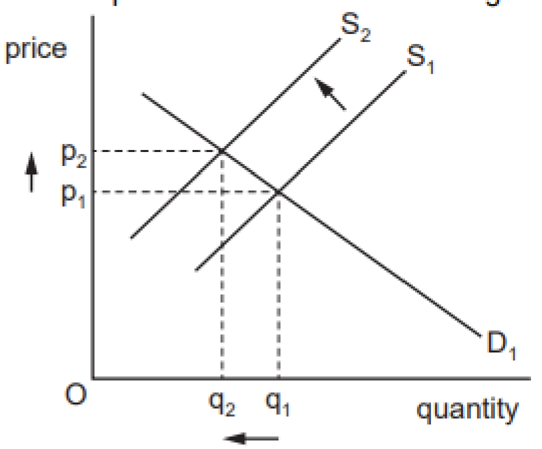
A tax that takes a higher percentage of income of the rich / lower percentage of income of the poor (2).
Falls more heavily on the rich / imposes a higher burden on the rich (1).
A tax which is used to reduce income inequality (1).

387. Explain two reasons why a government may want to reduce poverty.

Reduce income inequality (1) raise living standards (1).
To increase tax revenue (1) as average incomes / GDP will rise (1).
To improve the country's HDI / develop the country (1).
Reduce healthcare expenditure (1) as the poor will be fitter (1).
Increase labour productivity (1) leading to more output / lower unemployment (1).

388. Analyse, using a supply and demand diagram, the effect of increasing a sales tax.

Award up to 4 marks for a correct diagram:



- Axes labels P and Q (1)
- Supply and demand curves correctly labelled (1)
- Supply curve shifting left (1)
- Original and new equilibrium positions identified (1)

Award up to 2 marks for associated explanation:

Increasing tax raises a firm's costs of production (1).
A higher price (1) may be passed on to consumers (1).

389. Discuss whether a government should increase indirect taxes and whether it should reduce direct taxes.

Up to 5 marks for why the government should do this:

Incentives to work may increase (1) if low income then the extra income from work (1) could reduce poverty (1) if high income then the individuals could work harder (1) generating economic growth (1).
Raising indirect taxes on goods with external costs (demerit goods) e.g. cigarettes (1) can help to reduce market failure (1) e.g. health of the country improves (1).

Up to 5 marks for why the government shouldn't do this:

Indirect taxes tend to be regressive (1) whilst direct taxes are progressive (1) so this will worsen inequality / poverty in a country (1).
Both policies may lead to inflation (1) indirect tax increases push up prices of goods and services (1) direct tax cuts increase total (aggregate) demand (1).
Individuals may save any cuts in direct tax (1) minimising the economic impact (1).
It could cause individuals to spend more on imports (1) worsening the balance of payments (1).
Tax take could fall (1) as indirect taxes can be avoided whereas direct taxes cannot (1).

390. Identify two features of a capital-intensive production process.

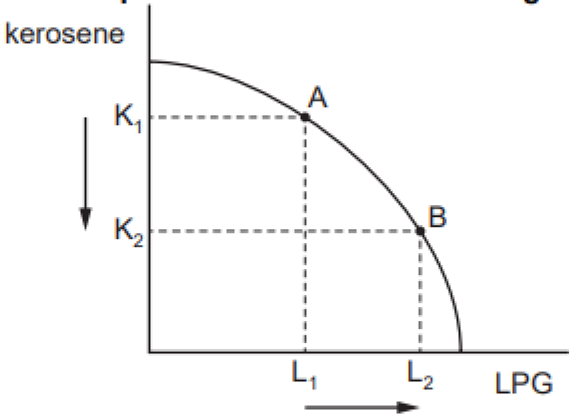
Process which relies heavily on capital goods e.g. machines (1) does not use much labour (1) relies less on other factors of production e.g. land (1).

391. Explain how market failure might occur in the oil industry.

Market failure is when there is an inefficient allocation of resources (1).
There is over-consumption / over-production of oil (1) because the external costs (1) are ignored by the market mechanism (1), such as pollution / global warming / harm to the environment (1).
There are cases of monopoly power (1) restricting output (1) pushing up price (1).

392. Analyse, using a production possibility curve (PPC) diagram, the effect of reallocating resources from kerosene to LPG.

Award up to 4 marks for a correct diagram:



- Axes labels LPG and kerosene (1)
- Curve / downward sloping line drawn to axes (1)
- Two production points illustrating increased production of LPG (1)
- New production point indicated (1)

Award up to 2 marks for associated explanation:

Reallocating resources will involve a movement along the PPC (1) this will involve an opportunity cost (1).

393. Discuss whether or not removing a firm's monopoly power will benefit consumers.

Up to 5 marks for why it might:

More choice for consumers (1) improved competition (1) will causes prices to fall (1) which will increase consumers' real disposable income (1).
The monopoly may be experiencing diseconomies of scale (1) with high (average) costs of production (1)
Quality is likely to improve (1) as firms will innovate in order to win customers (1).
Competition will force firms to be more efficient in order to survive (1). They will look to reduce costs in order to remain competitive (1) and will invest in research and development to maintain market share (1).

Up to 5 marks for why it might not:

A monopoly firm can take advantage of economies of scale (1) reducing (average) costs of production (1) example (1) the removal of monopoly power may increase prices for consumers, reducing their welfare (1)
Consumers may rely upon the reputation of a monopoly (1) for quality / customer service (1) too much choice can lead to confusion / inconvenience for consumers (1).
The firm may be state owned (1) may take into account the full social costs and benefits (1) may have charged low prices (1) to make products affordable (1).

394. Define recession.

A fall in GDP / negative economic growth (1) for two successive quarters / 6 months or more (1)

395. Explain why a recession is likely to reduce consumer spending.

Rise in unemployment (1) reduced income (1) reduced ability to spend (1).
Consumers save more (1) for fear of future / increased pessimism (1).
Likely to be associated with lower prices (1) consumers delay purchases (1).

396. Analyse the consequences of rising unemployment on a government's spending and tax revenue.

Pressure on the government budget will increase (1) as tax revenue will fall (1) from both direct (income) taxes (1) and indirect (spending) taxes (1).
Expenditure on unemployment benefits will increase (1) spending in other areas will increase (1) e.g. healthcare (1) higher spending on benefits involves an opportunity cost (1) e.g. education (1).
A government may increase spending and reduce taxes to increase total demand (1) to reduce cyclical unemployment (1).
Taxes may have to rise (1) creating a disincentive to work and enterprise (1).

397. Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession.

Up to 5 marks for why it might:

Depreciation means foreign consumers have to exchange less units of their currency for one unit of domestic currency (1), making exports cheaper (1) raising export demand (1) and imports more expensive (1) reducing demand for imports (1) as domestic consumers will find domestic goods and services relatively cheaper (1).
Firms have more domestic and foreign demand (1) and will increase output to meet this demand (1) preventing a recession (1).
Net exports will increase (1) increasing aggregate demand (1).

Up to 5 marks for why it might not:

Demand for imports may be inelastic (1) and a depreciation will not have a great effect (1).
Demand for exports may be inelastic (1) so export demand will not boost output (1).
If there is a recession in main export markets then demand for exports may still fall (1) even if they are now relatively cheaper (1).
It may cause cost-push inflation (1) as domestic firms have to pay more for imported inputs (1).
Depreciation may worsen investor confidence (1) reducing investment and causing a recession (1).

398. Define resources.

Factors of production/inputs (1) used to produce goods and services/example of a factor of production (1).

399. Explain two reasons why the quality of a country's resources may increase.

Advances in technology/investment (1) would increase the quality of capital (1).
Improved education/training (1) would increase the quality of labour (1).
Improved health care (1) would increase the quality of labour (1).
Irrigation (1) may improve the quality of land (1).
Reduction in pollution (1) may improve the quality of land (1).

400. Analyse the reasons why a country's birth rate may fall.

Increase in the cost of raising children (1) e.g. increase in the time children spend in education (1).
Increase in the proportion of women in the labour force (1) tends to reduce family size (1).
Increase in state provision of welfare payments (1) reducing the need to have children support parents in old age (1).
Reduction in infant mortality (1) people having fewer children in the expectation more will survive (1).
Ageing population (1) fewer people of child bearing age (1).
Greater availability/knowledge of contraception (1) makes family planning easy (1).
Education (1) e.g. higher cost of having children (1) women may get married later (1).
More women working (1) may delay childbirth (1)
Government policy (1) e.g. placing a limit on number of children (1)

401. Discuss whether or not a government should be worried about an increase in the proportion of its population aged over 65.

Up to 5 marks for why it should:
May mean more people are retired (1) increase the cost of pensions (1) may have to raise taxes (1) increase dependency ratio (1) may mean less people in the labour force (1) may lose some skills (1).
May increase the cost of healthcare (1) the elderly tend to place a greater burden on the health services (1).
May reduce the mobility of the labour force (1) older workers tend to be less mobile (1).
Older workers may be less familiar with new technology (1) less productive (1).

Up to 5 marks for why it should not:
Longer life expectancy (1) is a feature of economic development (1) raises HDI (1).
Government could raise retirement age (1) encourage rise in birth rate (1) encourage immigration (1) increasing the labour force (1) older workers have more experience (1) and so may have higher productivity (1).
Improvements in health care (1) may mean people are healthier at older ages (1).

402. Define a fixed cost.

A cost that does not change with output/has to be paid even if no output produced (1) in the short run/example (1).

403. Explain why traffic congestion is an external cost.

An external cost is a harmful effect imposed on a third party/those not involved in the decision making process/social cost minus private cost (1).
Traffic congestion causes journeys to take longer than they should (1) opportunity cost of lost time (1) higher costs for transport firms (1) cause pollution (1) cause health problems (1).

404. Analyse how a taxi firm could make use of information about the price elasticity of demand for its service.

Information on PED can influence a taxi firm's pricing strategy (1) could be used to determine whether demand is elastic or inelastic (1).
If demand is elastic, a change in price will cause a greater percentage change in quantity demanded (1) a reduction in price would raise revenue (and vice versa) (1) elastic demand would suggest there are close substitutes/competitive market (1).
If demand is inelastic, a change in price will cause a smaller percentage change in quantity demanded (1) a rise in price would raise revenue (and vice versa) (1) inelastic demand would suggest lack of substitutes/high market power (1).

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405. Discuss whether or not a reduction in unemployment always increases living standards.

Up to 5 marks for why it might:
Would be likely to mean an increase in employment (1) increase output/make more goods and services available (1) raise incomes (1) reduce poverty (1).
May increase provision of healthcare/expenditure on healthcare (1) increase life expectancy (1).
May increase provision of education/expenditure on education (1) increase literacy (1).
Reduce government spending on unemployment benefits (1) raise tax revenue (1) increase spending on e.g. pensions (1) which could reduce poverty (1).

Up to 5 marks for why it might not:
Employment may not rise if e.g. some of the unemployed have emigrated/retired (1).
The jobs taken up may be low skilled (1) low paid (1) have poor working conditions (1).
The jobs may be dangerous/involve working in an unhealthy atmosphere (1) reducing the health of workers (1).
Higher employment may increase external costs (1) e.g. pollution/traffic congestion (1).
May increase wages (1) causing cost-push inflation (1).
May increase demand (1) cause demand-pull inflation (1).

406. Define a subsidy.

A government payment/extra payment/grant/financial assistance (1) designed to encourage production/consumption/lower costs of production (1).

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407. Explain two disadvantages of inflation.

May reduce purchasing power/value of money will fall (1) each unit of the currency will buy less/if wages rise by less than inflation (1).
May be a reduction in international competitiveness (1) exports may fall/imports may rise (1).
Savings may fall in value (1) if the rate of interest rises by less than inflation (1).
More income may be taken in tax/fiscal drag (1) if tax brackets are not changed in line with inflation (1).
There may be menu costs (1) the costs of adjusting prices/catalogues etc. (1).
Random redistribution of income (1) e.g. lenders may lose and borrowers may gain/those with strong bargaining power may gain and those with weak bargaining power may lose (1).
More difficult to plan (1) discourages investment/causes people to make inefficient choices (1).

408. Analyse how an increase in government spending may cause inflation.

Higher government spending will increase total (aggregate) demand (1) higher demand may push up the price level/prices (1) cause demand-pull inflation (1).
Higher demand may increase demand for workers (1) this may cause wages to rise (1) higher wages may cause cost-push inflation (1).
Higher government spending may be financed by borrowing (1) this may increase the money supply (1) more money can cause demand-pull/monetary inflation (1).

409. Discuss whether or not an increase in the top rate of income tax will benefit an economy.

Up to 5 marks for why it might:
An increase in the top rate of income tax may raise more tax revenue (1) the extra revenue may be spent on e.g. healthcare/education (1) which may increase living standards (1).
The tax revenue may be spent on e.g. infrastructure/education (1) which may increase economic growth (1).
The higher rate may reduce income inequality (1) especially if some of the revenue is used to help the poor (1).

Up to 5 marks for why it might not:
The higher rate may discourage effort and enterprise (1) some entrepreneurs may choose to leave the country (1) may discourage MNCs from setting up in the country (1)
High paid workers may reduce their working hours (1) some workers may decide not to take up the offer of a promoted job (1).
The higher rate may encourage tax evasion (1) reduce tax revenue (1).
Higher tax rate may encourage the high paid to seek wage rises (1) this may raise costs of production (1) may cause cost-push inflation (1).
Reduce the disposable income of the rich (1) lower total (aggregate) demand (1) reduce output (1).

410. Explain, giving examples, the difference between vertical integration and horizontal integration.

Vertical integration is the merger between two firms producing at different stages of production (1) example e.g. a tyre producer and a car manufacturer (1).
Horizontal integration is the merger between two firms producing at same stage of production (1) example e.g. two commercial banks (1).

411. Analyse how a monopoly could benefit consumers.

A monopoly may earn high profits (1) this can allow them to invest (1) spend more on R&D (1) raise the quality of output (1).
A monopoly may produce on a large scale (1) this may enable it to take advantage of economies of scale (1) lowering average costs (1) lowering prices (1).
Provide a unique product (1) not produced by other firms (1).
Government monopoly (1) may charge lower prices/provide a service (1).
May charge low prices (for a while) (1) to keep potential competitors out of the market (1).
Less choice (1) may mean less confusion/time spent (1).

412. Discuss whether or not a country should devote more of its resources to building and operating new railway lines and stations.

Up to 5 marks for why it should:
It may increase the efficiency of the transport system (1) improve infrastructure (1) meet rising demand (1) reduce travel time (1) lower transport costs (1) making the country's firms more internationally competitive (1) attract MNCs (1) raising net exports (1) increasing output (1).
Passengers and freight may switch from road to rail (1) reducing congestion (1) and pollution (1).
May increase employment (1) if make use of previously unemployed resources (1).
May increase mobility of labour (1) reducing unemployment (1).
In long run, may increase government tax revenue (1).

Up to 5 marks for why it should not:
It will involve an opportunity cost (1) resources might be used more efficiently in producing e.g. healthcare (1) might reflect consumer demand to a greater effect (1) there may currently be underutilisation of the rail system (1).
Building railway lines may harm the environment (1) e.g. wildlife habitats may be destroyed (1).
Resources may not be suited to the industry (1) e.g. may be a lack of skilled engineers (1).

413. Define a depreciation of the currency.

A fall in the value/price of a currency/exchange rate (1) against another currency/caused by market forces/demand and supply (1).

414. Explain two reasons why demand for a country’s exports may be price inelastic.

Exports may lack substitutes/a country may have a monopoly in the product (1) people/firms may find it difficult to switch easily to products from home country or other countries (1).
Exports may be of addictive products (1) so a rise in price will not discourage people from buying the product (1).
Exports may be low-priced products which take up only a small part of income (1) so a price change will not have a significant impact on the amount people buy (1).
Exports may be necessities (1) and so people may continue to buy them in almost the same quantities should their price rise (1).

415. Analyse how the removal of import tariffs could increase a country’s output.

The removal of import tariffs would reduce the price of imports (1) enable firms to buy better quality products (1).
A lower price of imported raw materials (1) would reduce the cost of production (1) this may lower price of finished products (1) increasing demand (1) stimulating firms to produce a higher output (1).
A lower price of imports may put pressure on domestic firms to be more competitive (1) this may encourage them to be more efficient (1) raising quality (1) lowering price (1) increasing sales (1) stimulating firms to produce a higher output (1).
May attract MNCs into the country (1) as it is a move towards free trade (1).
May encourage other countries to remove tariffs (1) increase global output/allow firms to specialise (1).

416. Discuss whether or not net emigration will reduce poverty in a country.

Up to 5 marks for why it might:
Net emigration of workers (1) may result in money (remittances) being set home (1) such remittances may increase the income of their families (1) allowing them to buy basic necessities (1).
Net emigration may result in ideas being set home (1) workers may later return with better skills (1) raising the country's output (1) increasing employment (1).
Wages may be raised (1) to retain workers (1).
If a country is overpopulated (1) net emigration may enable there to be better use of resources (1).
Net emigration of older people (1) may reduce dependency (1) lower cost of pensions (1) lower healthcare costs (1).
Net emigration of unemployed/low-paid workers may reduce the number living in poverty (1).

Up to 5 marks for why it might not:
Net emigration of workers may reduce output (1) this could lower tax revenue (1) reduce the revenue the government can spend on lowering unemployment (1).
Net emigration of skilled workers may discourage MNCs setting up in the country (1) lowering potential output/income (1).
Net emigration of workers may leave their dependents relying on government benefits (1).
If a country is underpopulated (1) net emigration may mean there is worse use of resources (1)

417. Define a mixed economy.

An economy with a private sector and a public sector (2).
An economy where some resources are allocated by the government and some by market forces/the price mechanism (2).
An economy where different groups own resources (1).

418. Explain two advantages of working in the tertiary sector rather than the primary sector.

Pay may be higher (1) some jobs in the tertiary sector are well-paid e.g. banking/some jobs in the primary sector are low-paid e.g. farm-work (1).
Working conditions may be better (1) e.g. working in an office may be more comfortable than working outside in bad weather in the case of farming (1);
The work may be less dangerous (1) e.g. there are a number of accidents each year in mining (1).
Working hours may be shorter/more convenient (1) e.g. farm workers may have to start early in the morning (1).
There may be more fringe benefits (1) e.g. free air travel for pilots and their families (1).
There may be more job security (1) as the tertiary sector may be increasing while the primary sector is decreasing (1).
May provide greater job satisfaction (1) e.g. nurses may gain satisfaction from helping patients (1).

419. Analyse why a trade union may oppose a rise in working hours.

A rise in working hours may reduce working conditions/quality of the job (1) working more hours may result in workers being more stressed/less healthy/having more accidents (1) reduce less leisure time/trade unions usually seek to increase workers' leisure time (1).
A rise in working hours may mean that firms need fewer workers (1) increasing unemployment (1) reducing trade union membership (1).
Workers may not be compensated by higher wages (1).

420. Discuss whether a government should pay high wages to workers in the public sector.

Up to 5 marks for why it should:
High wages may increase workers' motivation/morale (1) increase labour productivity (1) unit wage cost may not rise (1).
High wages may attract skilled workers (1) raise the quality of public services (1).
High wages may increase total (aggregate) demand (1) this may increase output (1) reduce unemployment (1).
Avoid industrial action (1) and so disruption to key services (1).
May attract more workers/retain workers (1) may be a shortage of public sector workers (1).
May raise living standards of the workers (1).

Up to 5 marks for why it should not:
High wages may increase labour costs (1) raise government spending (1) this will increase total (aggregate) demand (1) may cause inflation/demand-pull inflation (1).
May cut employment (1) to keep wage costs the same (1).
Private sector firms may experience difficulty recruiting/retaining workers (1) may raise wages of their workers (1) to retain them (1) unit wage costs may rise (1) causing cost-push inflation (1).
Tax revenue may have to be raised to pay the higher wages (1) higher taxes may harm the poor if they are regressive taxes (1).
Opportunity cost (1) in terms of e.g. less spending on healthcare (1).

421. Define total revenue.

Price × quantity (2).
Total cost plus total profit/total cost minus any loss (2).
The amount received (1) from selling a product (1).

422. Explain how a firm may earn a profit despite a fall in revenue.

Profit is revenue minus cost (1).
Costs of production may fall by more than revenue (1) e.g. fuel costs may have fallen/action taken to reduce costs if revenue falls (1).
Revenue may have initially been higher than cost (1) profit may have fallen but still be positive (1).
The firm may receive government subsidies (1) reducing costs of production (1).

423. Analyse how the introduction of an indirect tax may cause unemployment.

An indirect tax will impose an additional cost on firms (1) example of an indirect tax (1) producers are likely to pass some of the tax on to consumers (1) raise the price of products (1) to maintain profit (1) higher price reduces demand for products (1) reduces supply (1) reduce demand for labour (1).
Higher prices may reduce total demand (1) as consumption is a component of total demand (1) reduction in derived demand for labour (1).
If tax mainly borne by producer/demand for the good is elastic (1) less money to invest (1) less jobs available (1).

424. Discuss whether or not MNCs are likely to set up in countries with low unemployment.

Up to 5 marks for why they might:
Incomes/GDP may be high (1) creating high demand for the MNCs' products (1) increasing profit (1).
People they employ are likely to have work experience (1) may be trained/need less expenditure on training (1) have higher productivity (1) lowering costs of production (1).
Employment may be in primary sector (1) where wages are lower (1).
May be a capital intensive and don't need many workers (1) just skilled workers (1).
Tax revenue may be high (1) due to high incomes and spending (1) so the government may not set high corporation tax (1) may provide subsidies to the MNCs (1) infrastructure is good reducing costs for MNCs (1).

Up to 5 marks for why they might not:
May have to pay high wages (1) provide generous fringe benefits (1) to attract workers from other firms/difficult to recruit (1) increasing costs of production (1) are uncompetitive with other MNCs in other countries (1) reducing profits (1).
The workers may be employed in low-skilled jobs (1) the MNCs may have to spend money on training workers (1).
High wages mean MNCs are unable to exploit labour with low wages (1) prefer to locate in countries where pay low wages (1) as this means low costs of production (1) and increases profits (1).
Low unemployment may mean a high level of demand (1) causing demand -pull inflation (1) it may push up wages (1) causing cost-push inflation (1) higher inflation may make it harder for the MNCs to export (1).

425. Identify two reasons why someone may choose to train to become a dentist.

High pay (1) fringe benefits (1) job security (1) good working conditions/environment (1) Interest/vocation/passion/high job satisfaction (1) high status (1).

426. Explain two reasons why manufactured goods are usually in more price elastic supply than agricultural goods.

The difference in the time it takes to produce the goods (1) it is usually quicker to make manufactured goods/it takes time for crops to grow and/or animals to be raised (1).
May have more skilled workers (1) more flexible in adjusting to changes in demand (1).
May have more mobile factors of production (1) e.g. land itself is geographically immobile (1).
The difference in storage time (1) it is usually easier to store manufactured goods (1).

427. Analyse the advantages of an increase in a country's labour force.

A larger labour force increases (potential) output (1) if the increased labour force are employed (1) output will rise (1) higher GDP/economic growth will occur (1).
Tax revenue will rise (1) enables increase in government expenditure on e.g. education and health (1) the level of dependency may fall (1).
New workers may bring new skills to the labour force (1) labour productivity may rise (1) the new workers may be more geographically mobile (1) occupationally mobile (1) may attract MNCs (1).
Higher labour supply (1) may reduce wages (1) reduce cost-push inflation/lower prices (1).
Higher output results in increased exports (1) improving balance of payments on current account (1).

428. Discuss whether or not a government should provide free dental treatment.

Up to 5 marks for why it should:
Some low paid people may not be able to afford dental treatment (1) it is an essential service (1) reduces poverty (1) enables people to spend on other essential goods/services e.g. education (1).
Dental treatment can improve the health of the population (1) raising the productivity of workers (1) increasing output (1) raising living standards (1) providing an external benefit (1).
Some people may not appreciate the true benefits of dental treatment to themselves (1).
The government's main motive may be to promote economic welfare (1).

Up to 5 marks for why it should not:
It may increase government spending (1) It will involve an opportunity cost (1) e.g. higher spending on education/raise taxes to cover cost/results in budget deficit (1).
The private sector is motivated by the profit motive (1) may provide a better service (1) be more responsive to consumer demand (1).
Some dental treatment is cosmetic (1) not an essential service (1).
Rich people able to pay for private treatment (1) waste of government resources in supporting low income families/children (1).
People may not take care of their teeth (1) as treatment is free (1) resulting in more resources devoted to dental treatment (1).
People who do not need treatment may go to the dentist (1) wasting resources (1).

429. Define death rate.

The number of deaths per 1000 of the country's population (1) per year/time period (1).

430. Explain two policy measures a government could introduce to encourage families to have more children.

Provide child benefit/subsidy/child bonus (1) to help cover the cost of raising children (1).
Increase maternity/paternity leave (1) to make it easier for people to combine work and parenthood (1).
Increase tax benefits/allowances to parents (1) to increase their disposable income (1).
Subsidise child care (1) to make it easier for people to combine work and parenthood (1).
Provide free state education/healthcare (1) to reduce the cost of raising children (1).
Lower interest rate (1) may enable parents to buy a larger house (1).

431. Analyse the impact that a declining population could have on the environment.

A declining population is likely to lead to less production (1) less traffic (1) this could reduce pollution (1) improving the quality of e.g. rivers (1).
A declining population could reduce consumption (1) slowing down depletion of resources (1) e.g. destroying less of the rainforest (1) preserving fish stocks (1).
Reduced labour force (1) there is the possibility that having fewer people may reduce the resources available to improve environmental conditions (1).
Shortage of labour may lead to increased use of machines (1) resulting in increased pollution (1).

432. Discuss whether or not a firm that produces a wide range of products can take advantage of economies of scale.

Up to 5 marks for why it might:

May be able to take advantage of financial economy of scale/greater ability to raise finance/borrow at a lower rate of interest (1) as this type of economy of scale is just dependent on the size of the firm (1).
May be able to take advantage of risk bearing economy of scale (1) as this type is dependent on a range of products being produced (1).
May be able to take advantage of managerial economy of scale (1) some specialised jobs e.g. accountants are not dependent on type of products produced (1).
May be able to take advantage of external economies of scale (1) these depend on the size of the industry (1).

Up to 5 marks for why it might not:

May not be able to take advantage of buying/purchasing economy (1) may not be able to buy raw materials in bulk (1).
May not be able to take advantage of technical economy (1) the different types of product may require different capital equipment to produce them (1).
May not be possible to achieve selling economy in the form of specialised transport (1) the different products may require different forms of transport (1).
May not be a large firm e.g. produces small amounts of lots of goods (1) and may not benefit from economies of scale (1).
Maybe be too big a firm (1) suffers from diseconomies of scale (1) example (1).

433. What is the difference between the price of a product and the cost of a product?

The price is the amount the customer pays for the product/average revenue/how much the product is sold for (1).
The cost is the expenditure involved in producing product e.g. labour costs (1).

434. Explain two influences on a country's demand for food.

Increase in population size (1) would increase demand as more people consume food (1).
Increase in prices (1) will reduce demand and vice versa (1).
Increase in income (1) increase demand for food as people have more purchasing power (1).
Health awareness (1) in some countries if people become more aware of the health problems of obesity, demand for food may decrease (1).
Increase in proportion of young people (1) consume more than old people so demand will rise/patterns of consumption are different (1).
The opening of fast food chains (1) may increase demand for meat (1).
Advertising (1) may persuade people to eat more (1).

435. Analyse why a country may change from a net exporter of a product into a net importer of the product.

Internal demand for the product may increase (1) due to a rise in income (1).
There may be a change in tastes from domestic to foreign produced versions (1).
There may be supply problems at home (1) due to bad weather/diseases (1).
Imports may become relatively cheaper (1) better quality (1).
Import restrictions may be removed (1) and foreign producers may be more efficient (1).
Higher inflation at home (1) may reduce exports as more expensive/increase imports which are cheaper than before (1).
Maybe a change in climate (1) making it difficult to grow a particular crop (1).

436. Discuss whether or not a central bank should limit the amount commercial banks can lend to its customers.

Up to 5 marks for why it should:
A function of a central bank maybe to control commercial bank lending (1).
Unlimited loans could encourage people to borrow too much (1) they may get into debt (1).
Some of the borrowers may not be able to pay back the loans (1) this could result in the banks collapsing (1) this could stop the economy working effectively (1).
A limit on the amount lent could control total (aggregate) demand (1) and reduce inflation (1).
A limit on bank lending could reduce spending on imports (1) this could improve the current account position on the balance of payments (1).

Up to 5 marks for why it should not:
Some people who cannot borrow may not have sufficient purchasing power to afford e.g. an adequate amount of food/education for their children (1) move into poverty (1).
Limiting loans to firms may cause some to close (1) causing unemployment (1).
Some firms may not be able to expand (1) restricting economic growth (1).
The limit may discourage MNCs from setting up in the country (1) foregoing the benefits MNCs may bring (1).
State of economy (1) if in recession (1) limiting lending by banks could lead to loss of jobs (1).
Unlimited loans could reduce the interest rate (1) this could increase economic growth/lower unemployment (1)
May force some of the poor to borrow from unregulated lenders (1) causing them to get into further debt (1).

437. Identify two ways a government could conserve its country's resources.

One mark for each appropriate action identified. Examples include:
Ban/place a limit on the amount of resource consumed.
Import resources to reduce consumption of country's own resources.
Reduce exports to reduce consumption of limited resources.
Put tax/increase tax on resources to reduce demand.
Educate consumers to reduce consumption/conserve resources.
Control immigration to reduce consumption of resources.
Encourage recycling of resources e.g. metals/plastic.
Subsidise firms that conserve natural resources.

438. Explain two external benefits that can arise from education.

Higher output (1) due to more skilled workers (1).
Better quality output (1) due to more efficient workers (1).
More advanced technology (1) due to ideas/ability to operate new technology (1).
Improved health/reduction in spread of diseases (1) more informed population (1).
Less pollution (1) if population educated on environmental issues (1).
Firms may have to spend less on training (1) due to greater supply of skilled workers (1).

439. Analyse how a cut in the rate of interest could reduce poverty.

A lower interest rate will increase the purchasing power of the poor who have borrowed before (1) will make it easier/cheaper to borrow (1) enabling them to buy more necessities (1) spend on education (1) enabling them to get a job / better paid job (1).
A lower rate of interest may encourage a rise in consumer expenditure (1) encouraging firms to expand (1) providing cheaper finance for the expansion (1) increase output (1) raise employment (1) raise income (1).
Higher output and spending may increase tax revenue (1) enabling the government to increase its spending to reduce poverty (1).

440. Discuss whether or not economic growth always increases living standards.

Up to 5 marks for why it might:
Higher output (1) may enable people to enjoy more goods and services (1) especially if GDP per head rises (1) may increase employment (1) raise incomes (1)
Higher output may increase tax revenue (1) more resources/higher quality of resources (1) may enable there to be better healthcare (1) increasing life expectancy (1) more/better education (1).
Higher output may enable more resources to be devoted to improving environmental conditions (1) e.g. reduce pollution (1).

Up to 5 marks for why it might not:
The benefits may not be evenly spread (1) income and wealth may be unevenly distributed (1) there may still be high levels of poverty (1).
Higher output may have been achieved by increasing working hours (1) working conditions may have declined (1) there may be greater stress (1) quality of output may be lower (1).
Expansion of heavy industries (1) may have created pollution (1) reduce health/life expectancy (1).
Non-renewable resources may have been depleted (1) reducing the opportunity to achieve sustainable development (1).
Economic growth may not be sustainable (1) increase in supply may not match increase in demand (1) causing inflation (1).
Economic growth achieved by exporting goods and services (1) economy producing more investment goods at expense of consumer goods (1) resulting in fewer goods available in domestic market (1).

441. Identify the reward received by labour and the reward received by enterprise.

Labour = wages (1). Enterprise = profit (1).

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442. Explain how inflation may affect borrowers and savers.

Borrowers may gain (1) if the inflation rate exceeds the interest rate/the real value of what they repay may fall (1).
Savers may lose (1) if the inflation rate exceeds the interest rate/the real value of their saving will fall (1).

443. Analyse why it is important to a government that inflation is measured accurately.

It is important to ensure a government/central bank follows the right policies (1). If, for instance, a government overestimates inflation it may increase taxes (1) cut government spending (1) raise interest rates (1) which may increase unemployment (1) reduce economic growth (1).
Measures of inflation e.g. CPI/RPI (1) can be the basis of wage claims (1) and rises in some state benefits/indexed linked state benefits (1).
Helps planning (1) may encourage investment (1).

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444. Discuss whether or not an increase in investment would reduce a deficit on the current account of the balance of payments.

Up to 5 marks for why it might:
May lower costs of production (1) make domestic products more internationally price competitive / lower export prices (1) so increasing demand for exports (1).
Advanced technology / more efficient production (1) may increase the quality of products produced (1) increase demand for domestically produced products (1) reducing demand for imports (1).
Investment in labour (human capital) (1) can increase skills (1) raise productivity (1) increase quality of products (1).
Investment abroad could increase primary income/income (1).

Up to 5 marks for why it might not:
The investment may go on imported capital goods (1) in the short run would increase spending on imports (1).
The investment may be in products which are not in demand abroad (1) are not substitutes for imports (1).
In the short run investment may increase total (aggregate) demand by more than total (aggregate) supply (1) which may cause inflation (1) making domestic products less internationally competitive (1).
Domestic products may become more competitive but net exports may not rise if offset by another change (1) e.g. import restrictions/fall in income abroad / rise in exchange rate (1).
Investment may not be big enough to make a difference (1).