



Rewarding Learning

**General Certificate of Secondary Education
2022**

Economics

Paper 1

[G9281]

MONDAY 16 MAY, AFTERNOON

**MARK
SCHEME**

General Marking Instructions

Introduction

Mark schemes are intended to ensure that the GCSE examinations are marked consistently and fairly. The mark schemes provide markers with an indication of the nature and range of candidates' responses likely to be worthy of credit. They also set out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for Economics.

Candidates must:

- AO1** recall, select and communicate their knowledge and understanding of concepts, issues and terminology;
- AO2** apply skills, knowledge and understanding in a variety of contexts; and
- AO3** analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 16-year-old which is the age at which the majority of candidates sit their GCSE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 16-year-old GCSE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking Calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

Tasks and questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within levels of response as follows:

- Level 1: Quality of written communication is limited.
- Level 2: Quality of written communication is satisfactory.
- Level 3: Quality of written communication is of a high standard.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable selection and use of an appropriate form and style of writing. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning clear.

Level 3 (High Standard): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

COVID-19 Context

Given the unprecedented circumstances presented by the COVID-19 public health crisis, senior examiners, under the instruction of CCEA awarding organisation, are required to train assistant examiners to apply the mark scheme in case of disrupted learning and lost teaching time. The interpretation and intended application of the mark scheme for this examination series will be communicated through the standardising meeting by the Chief or Principal Examiner and will be monitored through the supervision period. This paragraph will apply to examination series in 2021-2022 only.

Section A

AVAILABLE
MARKS

1 (a) *Identify two factors of production.*

There are four factors of production:
land, labour, capital and enterprise.

Credit should be given for any two.

Award [1] for each factor of production listed up to a maximum of [2].

(AO1)

[2]

(b) *Using an example, explain what is meant by specialisation.*

Specialisation occurs when workers are assigned specific tasks within a production process. Workers will require less training to be efficient at their job. Therefore, this will lead to an increase in labour productivity and firms will be able to benefit from increased efficiency. In the furniture business, one person may specialise in measuring out materials while another may be responsible for transport. Candidates may also discuss specialisation by courts or firm.

Allow up to [2] for a clear and accurate explanation supported by a relevant example, allow [1] for a flawed or partial explanation.

(AO1, AO3)

[2]

(c) *Explain **one** advantage and **one** disadvantage of specialisation.*

Possible advantages include:

- Higher output from workers specialising in those tasks at which they do best
- Production may be faster
- Average costs of production are likely to fall (economies of scale)

Possible disadvantages include:

- Workers may become bored by repetitive work
- Quality of goods may fall if workers become bored
- Workers may become deskilled

Allow up to [2] for each clear explanation of an advantage and a disadvantage of specialisation, award [1] for a flawed or partial explanation) (2 × [2]).

(AO1, AO3)

[4]

8

- 2 (a) *Using an example, explain what is meant by opportunity cost.*

Opportunity cost is the cost of making a particular choice in terms of the alternative foregone.

Allow up to [2] for a clear and accurate definition supported by a relevant example, allow [1] for a flawed or partial definition.

(AO1)

[2]

- (b) *Explain the opportunity cost of increasing the number of rugby balls by 20 as shown in the PPF as a move from Point A to Point B.*

If the number of rugby balls increases by 20 from 100 to 120, the number of footballs must decrease from 25 to 20. Hence the opportunity cost is 5 footballs.

Allow [2] for the correct number; or [1] if the answer is flawed or incomplete.

(AO2)

[2]

- (c) *Explain how FootRuggers could produce at Point C shown on the PPF diagram.*

Point C could only be achieved if FootRuggers increase the quantity or quality of existing resources, e.g. a better trained workforce or new machinery.

Allow up to [2] for a clear and accurate response, allow [1] for a flawed or partial response.

(AO1, AO3)

[2]

6

3 (a) *What is meant by unemployment?*

Unemployment is when a person is out of work but is available to work and actively seeking employment.

Allow [2] for a clear and accurate definition, [1] mark for a flawed or partial definition.

(AO1: [2])

[2]

(b) *During a recession, cyclical unemployment usually tends to rise sharply. What is cyclical unemployment?*

Cyclical unemployment is when workers are unemployed because there is a fall in total demand in the economy and there is in a downward cycle of economic activity. The economy is likely to be in recession.

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

(AO1: [2])

[2]

(c) *Explain one cost of unemployment to the UK economy.*

Costs of unemployment may include:

- The lost output that unemployed workers may have produced
- Increased government spending on benefits
- Loss of tax revenue to the government
- Increased social costs such as a rise in crime

Allow [2] for a clear and accurate explanation, [1] for a flawed or partial explanation.

(2 × [1]).

(AO1, AO3)

[2]

AVAILABLE
MARKS

6

Section B

AVAILABLE
MARKS

- 4 (a) Allow [1] for choosing vertical axes to show price of curly kale per kilo and correctly labelled; [1] for horizontal axis chosen for quantity of curly kale per kilo and labelled; [1] for correctly plotting demand curve; [1] for correctly plotting supply curve; [1] for correctly identifying equilibrium price as £1.75 and [1] for identifying equilibrium quantity as 45 kilograms.
(AO2: [6]) [6]
- (b) Allow [2] for correctly plotting and labelling the new demand curve; allow [1] for indicating the new equilibrium price at £1.5 and allow [1] for indicating the new equilibrium quantity as 40 kilograms.
(AO2: [4]) [4]
- (c) (i) Elasticity of supply describes the responsiveness of the quantity supplied to a change in price.
Allow [2] for a correct explanation; allow [1] for a flawed or partially correct explanation.
(AO1: [2]) [2]
- (ii) If the supply of beans is described as price inelastic, supply cannot respond easily to a change in price. This is a common situation for agricultural produce where it takes time for crops to grow and supply may be affected by weather conditions.
Allow [2] for a correct explanation; allow [1] for a flawed or partially correct explanation.
(AO1: [2]) [2]
- (d) The effects of closing the farm shop and replacing it with vending machines could affect Greenways fixed and variable costs in a variety of ways.
- These include:
- Fixed costs
- Expected savings on renting the property as the vending machines will now be situated on their own land
 - Insurance may now be cheaper as the new location on site may be included in the farm's insurance policy
 - Advertising costs will still need to be paid to advertise how the shop has been replaced with vending machines
 - Possibly higher repayments on loans to the bank if the farm has borrowed to invest in the new vending machines
- Variable costs
- Expected savings on staff wages even though staff time is still needed to stock and maintain the vending machines
 - Electricity costs could increase as vending machines will need to be switched on with electricity to keep them cool
 - Effects on running costs like electricity will depend on how the costs of running the new refrigerated vending machines compare with the shop costs
- Allow [1] for identification of an effect on costs and up to [2] for development of each. (2 × [3]).
(AO1, AO2, AO3) [6]

20

- 5 (a) Using Figure 1, state the difference between the percentage of total income of the top fifth and the bottom fifth of UK households.

The bottom 20% of households receives a total of 8% of the UK's income while the top 20% receive 40%. The difference is 32%.

Allow [2] for a clear and accurate identification of the proportion of income of the top and bottom 20% of households at 40% and 8% respectively, or the difference of 32%; allow [1] mark for a flawed or partial response.

(AO2: [2])

[2]

- (b) Explain two effects of income inequality on the UK economy.

The source material gives some economic effects of income inequality including how it impacts on the choices that people have about:

- The types of homes they can live in
- The financial credit that they can access
- The opportunities they can provide for their children
- The preparation they can make for retirement.

Further development may include more detailed explanation of how low income families spend a higher proportion of their income on their basic needs while higher income groups have spare resources for luxuries. Hence markets in the economy are more responsive to the wants of higher income groups. This may create the need for government intervention in areas such as housing. Low income families may rely more on credit and be vulnerable to some of the most expensive sources of credit such as Payday loans.

Allow [1] for the identification of each effect (2 × [1]) and up to [2] for development.

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

[4]

- (c) Using Figure 2, describe how a degree qualification benefits male and female workers over their lifetime compared to other male and female workers who have A level qualifications.

Figure 2 shows that on average:

- Male workers with a degree earn £10 per hour at age 22/23; this increases fairly steadily and rapidly to just under £25 by the age of 35
- By contrast, male workers with A levels start close to £8, at the age of 20 and their earning per hour peaks at around £17 or £18 per hour by the age of 35
- For male workers, having a degree benefits their average pay over their lifetime by as much as £7 or £8 per hour
- The pattern is similar for female workers with corresponding qualifications who start at the same rates of pay at the same ages. However, the progress of their hourly wages over their working lifetime is lower than that of male workers for both those with A levels and degree qualifications
- Female workers with a degree earn a maximum of £17/£18 per hour, £7 or £8 below male workers. In fact their rate of hourly pay is similar to male workers with A level qualifications
- Female workers with A level qualifications have peak earnings of approximately £12 per hour, £5 below their male counterparts with the same level of qualifications

Level 0 ([0])

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

Level 1 ([1]–[2])

The candidate demonstrates some understanding of the key points from the data but their response is underdeveloped. Quality of written explanation is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of the key points from the data but their response could be more fully developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates an excellent understanding of the salient points from the data and contrasts male and female average earnings. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[6]

- (d)** *Analyse two policies that the government could use to reduce income inequality.*

Income inequality is an example of market failure resulting in the misallocation of resources. There are numerous examples of government action to try and help low income families improve their access to education and employment.

Policies that the government could use to reduce income inequality include:

- Raising the level of the National Minimum Wage and the National Living Wage
- Ensuring that labour markets work more efficiently so that female workers earn the same rates of pay for the same work as men
- Encouraging workers to achieve higher levels of educational training
- Help low paid workers through the tax and benefit system so that their real disposable income increases

As part of the analysis candidates could explore the benefits and drawbacks of these policies. Areas for analysis include: changes to incentives; how individuals and households may benefit from such measures; unintended consequences; cost to business and government

Any other valid response will be credited.

Allow [1] for identification of each policy and up to [3] for development and analysis. (2 × [4])

(AO1: [2], AO3: [6])

[8]

20

AVAILABLE
MARKS

6 (a) *Explain what is meant by a monopoly.*

Economic theory suggests that a monopoly describes a market situation dominated by a single supplier. In the UK, the legal definition is when a firm controls 25% of the market. However, the stimulus would suggest that BT and O2, each with 25% or over of the mobile phone market could each be in a monopoly position. Also, with Vodafone having 24% of the mobile phone market, this suggests that the market is oligopolistic.

A monopoly can exist on a local, regional or national level. For example, in a local area there may not be much competition for some goods and services hence one firm may have the monopoly. On a regional level, some firms may be granted dealerships giving them the regional monopoly. In Northern Ireland, this is the case for some car dealerships.

Some monopolies are run by the government in the public sector. Again within Northern Ireland, Translink is the sole provider of public bus and rail transport. This situation is permitted by government as it is considered to be in the public interest and the market is not sufficiently large to support competition and possible loss of economically inefficient routes. Since privatisation, there are fewer state funded monopolies but some private companies have monopoly powers, sometimes for strategic reasons, and monopoly practice is supervised and investigated by the Competition and Markets Authority.

Level 0 ([0])

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

Level 1 ([1]–[2])

The candidate demonstrates some understanding of a monopoly but this is poorly explained or underdeveloped. Quality of written explanation is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of a monopoly but the explanation could be more fully developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of the meaning of a monopoly and supports their explanation with some relevant development. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[6]

(b) *Explain why new firms may want to enter a market.*

In the private sector, new firms may enter a market to make profit. The stimulus states that BT bought over a company (EE) in order to get a foothold in the mobile phone market.

New markets for products and services constantly emerge and new suppliers see this potential to grow and thrive. Consumer tastes change and firms may want to keep in contact with these rather than being in markets where demand has fallen.

There may be other additional motives including:

- Economies of scale
- Growth
- Market dominance
- Compete with rivals
- Long-term profit making and survival

Level 0 ([0])

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

Level 1 ([1]–[3])

The candidate is aware of some reasons why new firms enter markets but the points are incomplete or not well developed. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate provides a reasonable explanation of reasons why new firms enter markets. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate provides a thorough examination of reasons why new firms enter markets. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[9]

- (c) *Discuss the view that competition results in the best outcomes for consumers and producers.*

Economists often argue that competition in a market is better than markets that are dominated by one or a few firms such as a monopoly or oligopoly.

The reasons include:

- Greater consumer choice which is often seen as a good thing in itself
- Greater competition should lead to lower prices for consumers
- Competition should improve the quality of the good or service produced
- Competition will lead to more innovation and development of new products

However, some disadvantages of competition may include:

- In some industries only a monopoly may be efficient (natural monopoly argument)
- If a market is very competitive, individual firms may not grow sufficiently large to benefit from economies of scale. Consumers may not gain much advantage of lower prices resulting from lower costs
- Larger firms in less competitive markets (monopolies) may make more profit which can be used to fund research and development

Level 0 ([0])

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

Level 1 ([1]–[5])

The candidate identifies some possible advantages or disadvantages of competition but points are not developed or discussed. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses some advantages and disadvantages of competition. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

The candidate thoroughly discusses a range of advantages and disadvantages of competition and links points to the outcomes for consumers and producers. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[15]

AVAILABLE
MARKS

30

7 (a) Explain what is meant by social costs and benefits.

A social cost is the total cost to society of producing or consuming a good or service. It includes private costs which are paid by the producer or consumer and external costs which are paid by third parties. For example, air travel, as mentioned in the stimulus, creates private costs in the form of the air fares paid by passengers. It also produces negative externalities in the form of pollution and congestion around airports, with these costs borne by third parties.

A social benefit is the total benefit to society of producing or consuming a good or service. It includes private benefits enjoyed by the producer or consumer and external benefits which are enjoyed by third parties. Free health care brings private benefits to individuals who can access services to help them maintain and enjoy good health. Society also benefits as fewer days are lost at work and the value of output in the economy increases.

Level 0 (0)

There is no content worthy of credit.

Level 1 ([1]–[2])

The candidate demonstrates some understanding of the concept of social costs and benefits. Quality of written explanation is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of the concept of social costs and benefits but their answer could be developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of the concept of social costs and benefits. Quality of written communication is of a high standard.

(AO1, AO2, AO3) [6]

(b) Analyse the possible social costs and benefits associated with flight travel.

Flight travel gives rise to a number of social costs and benefits including:

Private costs

- Ticket purchase – passengers, individuals and firms, use their private financial resources to pay the price of tickets and probably travel insurance

Negative externalities

- Air travel is now considered to be a major cause of air pollution, the cost of which is not fully recognised in the price of tickets. Aircraft are still major users of fossil fuels
- Aircraft also cause noise pollution forcing residents to sometimes take action, e.g. restrictions are in place to ban flights after 10 p.m. around Belfast City Airport
- Large numbers of passengers create the need for support services such as travel to airports and this causes traffic congestion which contributes even further to air pollution. This also adds to business costs if traffic

moves more slowly such as around major airports like Heathrow and Gatwick

- Cars generate air and noise pollution to travel to the airport. Air pollution can contribute to global warming. It also causes respiratory illnesses and damages buildings and vegetation
- Road construction and maintenance. Roads and associated infrastructure such as traffic signals have to be paid for
- Wildlife, especially birds, also suffers in and around airports

Private benefits

- Individuals enjoy the benefits of travelling long distances very quickly which saves them time
- They also have new opportunities opened to travel to parts of the world that would be difficult by other means of travel
- Air travel helps people to maintain communication with people in other countries
- Businesses use air freight to move perishable commodities long distances, e.g. spare space in the hold of passenger planes is used to transport fresh fish from the UK to North America and Europe (Ref. Ed Balls What Britain buys and sells in a day, BBC 2019)
- Business and organisations benefit from using air travel to send representatives efficiently on UK and global business

Positive externalities

- People gain more knowledge and understanding of other countries and cultures
- Air travel has contributed to the growth in global tourism and created many jobs
- Workers can now realistically consider wider geographic employment opportunities
- Ease of travel to the UK has attracted foreign tourists and helped economic growth, employment and the Balance of Payments

Level 0 (0)

There is no content worthy of credit.

Level 1 ([1]–[3])

The candidate explains a number of social costs and benefits that arise from air travel but that explanation is limited. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate provides a reasonable explanation of relevant social costs and benefits that arise from air travel. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate provides a thorough examination of a range of relevant social costs and benefits that arise from air travel. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[9]

(c) *Discuss how the UK government could help to reduce the environmental effects of flight travel.*

AVAILABLE
MARKS

The stimulus provides examples of two possible policies that could be implemented to reduce the environmental effects of flight travel:

- Much higher taxes on frequent flyers
- Increased investment in new technology similar to the developments in the car industry

Other policies could include: requirements on airlines to charge prices that reflect the full social costs and make them contribute to the clean up; a rationing of air travel by distance and/or frequency; a ban on air travel; promotion of alternative, more environmentally friendly alternatives to air travel including taking holidays in the UK rather than abroad.

Higher taxes

- Will result in an increase in the cost of air travel to individuals and business and lead to some reduction in demand
- Tax revenue will be available to the government to help address the negative externalities
- Taxes should be easy to implement and collect as they fall directly on to the passenger
- This is likely to be unpopular with the general public who have got used to cheap flights and opportunities to travel widely
- Some jobs may be lost in the airline industry and its ancillary sector if fewer passengers travel
- Demand for alternative forms of transport such as ferry and rail may increase
- The local economy may benefit from greater spending on domestic services like tourism

Increased investment

- Airline manufacturers will need to invest in new technology to develop new engines that use more sustainable sources of power, like electricity
- The government may have to provide generous subsidies to airlines to encourage them to invest in new environmentally friendly technology
- There will be new opportunities in research and development and a chance to develop new specialism that could be sold internationally
- Those manufacturers that have problems adjusting to the new technology may go out of business. At the same time new companies may successfully enter the market
- Similarly some support industries such as fuel suppliers and engine maintenance may go out of business
- On the other hand there will be a growth in demand for other products such as batteries that can provide high quantities of energy
- There could be a loss of jobs in areas such as maintenance and fuel supply leading to unemployment
- If the UK air manufacturing industry fails to adopt new technology, there could be an increase in imports of aircraft. On the other hand successful development of electric fuelled aircraft could lead to a rise in exports and contribute to economic growth
- If passenger airlines fail to adopt new technology, they could go out of business or be banned from operating
- The government may lose tax revenue earned from the sale of fossil fuels

Appropriate alternative policies will be credited

Level 0 ([0])

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

Level 1 ([1]–[5])

The candidate identifies relevant actions or policies that the government could implement but the discussion is limited and not well developed. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses relevant actions or policies and their impact on individuals, firms and the economy as a whole. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

The candidate thoroughly discusses relevant actions or policies and their impact on individuals, firms and the economy as a whole. The response is well developed with a good balance of potential positive and negative outcomes. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[15]

30

AVAILABLE
MARKS

8 (a) Explain what is meant by international trade.

International trade is the exchange of goods and services between countries that specialise in those goods and services. This is done by importing and exporting goods and services. When conditions are right, trade brings benefits to all countries involved and can be a powerful driver for sustained GDP growth and rising living standards. If countries specialise in the production of certain goods and services and then trade with other countries there will be an increase in economic welfare.

Level 0 ([0])

The response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1)

The candidate demonstrates some understanding of international trade but points are not well developed. Quality of written explanation is limited.

Level 2 ([3]–[4])

(AO1, AO2)

The candidate demonstrates reasonable understanding of international trade and points are supported with some development. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1, AO2)

The candidate demonstrates thorough understanding of international trade and points are supported with good development. Quality of written communication is of a high standard. [6]

(b) Explain why the UK has a trade deficit on the current account of the Balance of Payments.

The UK's trade deficit on the Current Account of the Balance of Payments can be explained by:

- The UK is a net importer of goods due to the fact that we are not self sufficient in the production of food stuffs and other raw materials
- Resources in the UK are more limited than in many other countries with which we trade therefore we need to buy in many of the components and raw materials needed by manufacturing and service industries
- The UK imports large quantities of food, commodities and raw materials, all of which are important in giving consumers' choice and business the raw materials and components they need to operate their businesses. Hence it would be difficult to reduce this section of the Balance of Payments accounts to improve the situation significantly
- The UK generally has a positive balance in the Balance of Trade in services – it shows that the UK is a net exporter of services but this section of the accounts is not sufficiently strong to completely counteract the negative balance on goods
- UK is a relatively wealthy developed economy and the majority of citizens enjoy a high standard of living. They are used to consuming imported goods, e.g. foreign cars, and services such as foreign holidays, all of which they would be reluctant to give up

- Deindustrialisation and the loss of manufacturing comparative advantage, has made us dependent on imports of goods
- Changes in exchange rate

Level 0 (0)

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

Level 1 ([1]–[3])

(AO1, AO2)

There is a limited explanation of why the UK has a Balance of Trade deficit. Quality of written explanation is limited.

Level 2 ([4]–[6])

(AO1, AO2, AO3)

There is a reasonable explanation of why the UK has a Balance of Trade deficit with some development of the role played by exports and imports. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

(AO1, AO2, AO3)

There is a clear explanation of why the UK has a Balance of Trade deficit that includes a detailed discussion of the relative effects of imported and exported goods and services. Quality of written communication is of a high standard. [9]

- (c) *Discuss the possible effects on consumers, businesses and the UK economy as a whole of a fall in the exchange rate of the pound against other currencies.*

A depreciation of the pound against other currencies makes the UK a more attractive market for importers of UK goods and services. UK exports will become relatively cheaper in foreign markets so this is likely to increase demand.

Consumers

- They may feel the effects of the fall in the pound in the price of many basic household items such as food. The household shopping basket is likely to increase in price and other essential items, such as fuel which is mostly imported, are also likely to be affected by the weak pound
- They will have less spending power so aggregate demand in the economy will fall
- Foreign holidays, which are imported services, will be more expensive and their spending power abroad will be reduced

Businesses

- Businesses that need imported raw materials or inputs will find their costs rising and thus force them to either put up prices or reduce their profit margins
- Some businesses may benefit from greater demand from overseas customers providing an opportunity for growth and development
- With foreign holidays more expensive, the UK's tourist industry may receive a boost through greater demand for UK citizens

- Increased demand from foreign tourists coming to the UK to take advantage of relatively cheaper holidays will also help the UK economy both in terms of employment and economic growth

Economy as a whole

- The effect on the UK economy is likely to be an increase in exports of goods and services, creating jobs and increasing aggregate demand and economic growth
- The flow of spending out of the UK to buy imported goods and services is likely to fall so this further increases domestic demand. These effects are relative to the extent of the change in the exchange rate and how these affect consumer and business behaviour both at home and abroad
- The fall in the exchange rate could result in higher import costs and cost-push inflation

Level 0 ([0])

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

Level 1 ([1]–[5])

The candidate identifies one or two possible effects of the fall in the exchange rate of the pound but these are not well discussed or developed. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses some possible effects of the fall in the exchange rate of the pound with some relevant development. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

The candidate develops and thoroughly discusses the main effects of a fall in the exchange rate of the pound changes in the exchange rate. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[15]

30

Total

150

AVAILABLE
MARKS