



Mark Scheme (Results)

Summer 2016

Pearson Edexcel International GCSE
in Economics (4EC0) Paper 01R

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)(i)	an increased preference for tea by consumers A	(1)

Question Number	Answer	Mark
1(a)(ii)	Identification of a factor (1 mark) with development (1 mark) Factors leading to an inward shift in supply curve e.g. • Costs of production • Natural factors • Indirect tax • Subsidies • Change in price of other goods Development of each factor • Increased wages will shift supply curve inwards leading to higher prices • Poor weather means a smaller harvest • If price of coffee is expected to rise the farmer may switch production from tea to coffee beans N.B. Answer must contain two separate factors and not two examples of one factor.	(4)

Question Number	Answer	Mark
1(b)(i)	Responsiveness of demand following a change in price (2) or formula eg $\% \text{ change quantity demand} / \% \text{ change in price}$ (2) Vague definition (1)	(2)

Question Number	Answer	Mark												
1(b)(ii-iv)	<table border="1"> <thead> <tr> <th>Price elasticity of demand</th><th>Price change</th><th>Effect on total revenue</th></tr> </thead> <tbody> <tr> <td>Elastic</td><td>Fall</td><td>(ii) Rise/increase (1)</td></tr> <tr> <td>Elastic</td><td>(iii) Rise/increase (1)</td><td>Decrease</td></tr> <tr> <td>(iv) Inelastic (1)</td><td>Increase</td><td>Increase</td></tr> </tbody> </table>	Price elasticity of demand	Price change	Effect on total revenue	Elastic	Fall	(ii) Rise/increase (1)	Elastic	(iii) Rise/increase (1)	Decrease	(iv) Inelastic (1)	Increase	Increase	(3)
Price elasticity of demand	Price change	Effect on total revenue												
Elastic	Fall	(ii) Rise/increase (1)												
Elastic	(iii) Rise/increase (1)	Decrease												
(iv) Inelastic (1)	Increase	Increase												

Question Number	Answer	
1(b)(v)	Supporting the statement (1) with development (up to 2 marks) - Tea is elastic as there are many substitutes for tea e.g. coffee, juice - Fuel for cars is inelastic because it's a necessity with few alternatives Arguments not supporting the statement (1) with development (up to 2 marks) - Tea could be considered inelastic because the proportion spent on tea is small/substitutes may not be acceptable - Fuel could be considered elastic as people could switch to public transport, electric cars, bicycles	

	Further guidance • Up to 3 marks for a one sided argument • Up to 4 marks for a two sided argument • Final 2 marks requires supported judgement e.g. depends on the time scale involved, in the long run alternatives to fuel may be developed/alternative fuels e.g. hydrogen cells. e.g. depends on relative PED values	(6)
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Question Number	Answer	Mark
1(c)(i)	Identification of a factor (1 mark) with development (up to 2 marks) Factors include: • Change in demand for tea • Change in cost and availability of substitutes for labour • Change in productivity of labour • Change in costs linked to employing labour (eg national insurance) Development might include: • Labour is a derived demand (1) therefore a change in the demand for tea changes the demand for labour (1) • More sophisticated machinery such as automatic tea harvesters (1) reduces the need for labour (1) • Better training will lead to more efficient labour (1) which may reduce the need for as much labour (1)	(3)

Question Number	Answer	Mark
1(c)(ii)	Diagram Wage rate W2 W1 D2 D1 Q1 Q2 Number of tea workers employed Up to 3 marks for correct diagram • Original equilibrium wage and quantity of labour shown (1) • Demand curve shifted outwards (1) • New equilibrium wage and quantity of labour shown (1) Up to 2 marks for written explanation e.g. Labour is a derived demand, increasing demand for tea leads to increasing demand for workers (1) this shifts the demand curve outwards leading to higher wages and employment (1)	(5)

Question Number	Answer	Mark
1(d)	Reasons why public sector produces goods and services in a mixed economy • Government provides goods and services which would either not be provided by the private sector (or not enough would be provided) if left to market forces (eg Health care & Education/Merit goods/Public goods) Reasons why private sector produces good and services in a mixed economy • Individuals or groups of individuals are free to set up businesses and supply goods and services to anyone who wants to buy them • Profit motive • Government policy e.g. privatisation reducing the role of the state Relevant examples e.g. national defence (public sector) or mobile phones (private sector) (1 mark) Further guidance • Up to 3 marks for discussion of role of either public sector or private sector in the production of goods and services <u>or</u> for discussion of mixed economy with relevant examples • Up to 4 marks for discussion of both the public sector and private sector <u>or</u> for discussion of mixed economy with relevant examples <i>compared to</i> other economic systems (eg planned/free market) • Final 2 marks requires some level of supported judgement e.g. balance of private and public provision depends on a range of factors including... • Political ideology/government policy • Degree of market failure • Availability of government funds • Availability of private sector funding • State of the economy	(6)

Question Number	Answer	Mark
2(a)(i)	Output (1) per worker (1) Also accept equation: output/number of workers = 2 marks	(2)

Question Number	Answer	
2(a)(ii)	Identification of a way (1 mark) with development (1 mark) Ways include: • Introduce new working practices • Introduce incentive schemes • Training/retraining workers • Using new/more efficient machinery Developments include: • Job rotation introduces variety and increases motivation • Financial incentives reward workers who increase production • Training makes workers able to complete tasks more efficiently	(4)

Question Number	Answer	Mark
2(a)(iii)	• Capital (1) • Enterprise or Entrepreneurs (1)	(2)

Question Number	Answer	Mark
2(b)(i)	Falling average costs (long-run) (1) as scale of output increases (1) The fall in average costs (long-run) (1) that an individual firm can enjoy when it expands (1) Falling long-run average costs (1) N.B. Accept both AC and LRAC for average costs.	(2)

Question Number	Answer	Mark
2(b)(ii)	Arguments supporting the statement (1) with development (up to 2 marks) • Merger would increase scale of production which would lower average cost. This may mean that the firm lowers prices which would benefit consumers • Merger may lead to increase in efficiency (with cost savings passed on to consumer or savings invested in research and development) • Merger may lead to increase in quality of products Arguments not supporting the statement (1) with development (up to 2 marks) • Merger may result in diseconomies of scale, which would increase costs per unit which may lead to increase in prices • Merger may lead to reduction in service quality • Merger may mean that some previous flights are now discontinued • Reduction motivation of staff may reduce quality of the product • Merger may lead to some flights stopping (because it's a duplication of a route)	

	• Merger could increase monopoly power (ie by reducing competition) this might mean prices of flights increase. Further guidance • Answer can refer to any industry • Up to 3 marks for a one sided argument • Up to 4 marks for a two sided argument • Final 2 marks requires supported judgement (eg depends on whether the cost saving is passed on to the consumer, role of the Competition and Markets Authority in controlling abuse of monopoly power)	(6)
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Question Number	Answer	Mark
2(c)(i)	Ingredients/or example of ingredients e.g. sugar (1);sweet bags/wrappers/packaging (1); electricity/delivery cost to shop (1)	(1)

Question Number	Answer	Mark
2(c)(ii)	If the sweet shop makes more sweets (1) then they will need to buy more sugar (1)	(2)

Question Number	Answer					Mark
2(c)(iii) - (v)	Output (bags of sweets)	Total fixed costs £	Total variable costs £	Total cost £		
	100	30	(iii) 90	120		
	200	(iv) 30	170	200		
	300	30	240	(v) 270		(3)

Question Number	Answer	Mark
2(c)(vi)	Total revenue = $300 \times £1.50 = £450$ (1) Profit = $£450 - £270 = £180$ (1) NB: Award mark for formula Profit = Total Revenue – Total Cost (1) If answer is just 180, restrict to 1 mark	(2)

Question Number	Answer	Mark
2(d)	Arguments supporting the statement with development (up to 3 marks) • Governments seek to maintain jobs in areas which are in decline as low unemployment is an economic objective. • Government often provides incentives (eg grants, tax breaks) to firms to relocate in areas of high unemployment so that jobs will move to the area Arguments not supporting the statement with development (up to 3 marks) • Discussion of other reasons why governments try to influence the location of firms eg to reduce congestion, to reduce income inequality Further guidance • Up to maximum of 3 marks for a one sided argument • Up to maximum of 4 marks for a two sided argument Final 2 marks requires supported judgement e.g. candidate reaches a conclusion based on examination of evidence and quality of argument. eg it may not just be for one particular reason, but for a combination of reasons influenced by political and social factors. The nature of the industry may also be a consideration.	(6)

Question Number	Answer	Mark
3(a)(i)	Unemployment caused by a fall in demand (1) as a result of a downturn/slump/recession in the economic cycle (1)	(2)

Question Number	Answer	Mark
3(a)(ii)	Unemployment which occurs for a short/brief/temporary period of time (1) as workers move from one job to another (1)	(2)

Question Number	Answer	Mark
3(a)(iii)	Arguments supporting the statement with development (up to 3 marks) - Increasing government spending or reducing taxation will lead to an increase in demand in the economy, which will in turn reduce the level of unemployment as firms will produce more and will therefore employ more workers as labour is a derived demand - Lowering taxes will increase the incentive to work - More government spending on building roads, hospitals, schools will mean there are more jobs for construction worker/The construction industry is labour intensive Arguments not supporting the statement with development (up to 3 marks) - It depends on the type of unemployment eg increase in demand might not help to reduce structural unemployment - Increase in government spending or reduction in taxation might not reduce seasonal unemployment or frictional unemployment - If households lack confidence then they may choose not to increase spending following tax cuts, which means expansionary fiscal policy may not lead to an increase in employment as firms do not get an increase in orders. Further guidance - Up to maximum of 3 marks for a one sided argument - Up to maximum of 4 marks for a two sided argument Final 2 marks requires supported judgement eg Depends on other economic variables e.g. exchange rate	

	Depends on size of the fiscal stimulus Depends on monetary policy/supply side policy Depends on time lags and global recession	(6)
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Question Number	Answer	Mark
3(b)(i)	Prices have been increasing (1) at a decreasing rate (1) Data reference (up to 2 marks) eg prices rose by approx 7.5% in 2014 (1) but rose by just under 4% in 2015 (1)	(3)

Question Number	Answer	Mark
3(b)(ii)	The CPI is a measure of the general(or average) price level (1) The CPI will rise (1) because food is included in the index (1)	(2)

Question Number	Answer	Mark
3(b)(iii)	Identification (1 mark), development (up to 2 marks) Factors include: • Increase in costs of production – increase in prices reduces standard of living for workers who want higher wages • Suppliers also face rise in prices and so increased cost of raw materials • Increase in <i>menu costs</i> – ie firms may have to reprint price lists/brochures/update websites more often • Increase in <i>shoe leather costs</i> – ie firms may have to spend time looking for the lowest prices and best value for money, this takes times which increases costs	(3)

Question Number	Answer	Mark
3(c)(i)	Identification of reason (1) development (1) damage to the environment (1) protect the earth for future generations (1) Sustainability (1) shrinking supply of natural resources (1) Political pressure (1) increasing public awareness forcing government action (1)	(2)

Question Number	Answer	Mark
3(c)(ii)	Identification of method (1) development of method (1) Methods include: • Regulation (1) use of legislation and legal force to control behaviour (1) • Taxation (1) increases price of polluting products/activities (1) • Subsidies (1) reduces cost of environmentally friendly products/activities (1) N.B. accept any relevant method	(4)

Question Number	Answer	Mark
3(c)(iii)	Arguments supporting the statement with development (up to 3 marks) • To protect the environment world production must be reduced – this would lead to closure of production facilities which would lead to increase in unemployment and a reduction in economic growth • Cleaner air requires people to travel less – this may mean people will not go out as often which could lead to the closure of small businesses and retail outlets and reduce the level of demand in the economy • Regulation may mean that output is restricted – this will lead to job losses and reduce the level of demand in the economy Arguments not supporting the statement with development (up to 3 marks) • New types of industries, businesses and jobs will be created, which will lead to economic growth • Environmental protection will encourage development of new technologies which will mean that output can still increase • Less congestion and pollution could increase productivity leading to economic growth, investment in green growth. Further guidance • Up to maximum of 3 marks for a one sided argument • Up to maximum of 4 marks for a two sided argument • Final 2 marks requires supported judgement eg depends on how severe protection methods are and how quickly they are implemented.	(6)

Question Number	Answer	Mark
4(a)(i)	$\text{£}500\,000 \times \$1.50 (1) = \$750\,000 (1)$ N.B. if just 750 000 award 1 mark	(2)

Question Number	Answer			Mark
4(a)(ii)-(iv)	Changes affecting exchange rate	Appreciate	Depreciate	(3)
	(ii) The demand for imports falls	☒	☐	
	(iii) The rate of interest falls	☐	☒	
	(iv) Currency speculators expect the exchange rate to rise	☒	☐	

Question Number	Answer	Mark
4(a)(v)	Diagram Diagram marks Up to 3 marks for correct diagram • Original equilibrium exchange rate and quantity of currency shown (1) • Demand curve shifted outwards (1) • New equilibrium exchange rate and quantity of currency shown (1) Up to 2 marks for written explanation e.g. currency speculators will increase demand for the currency because they will expect to make a profit on the sale of the currency in the future (1) this leads to demand curve shifting outwards (1)	(5)

Question Number	Answer	Mark
4(b)(i)	The pace of growth or development (1) between developed and developing nations (1) The gap between rich and poor nations (1)	(2)

Question Number	Answer	Mark
4(b)(ii)	Identification of disadvantage (1), development of disadvantage (1) Disadvantages include: • Overuse of resources (1) which damages growth prospects of future generations (1) • Higher commodity prices (1) as countries grow demand for commodities such as oil increases therefore pushing up prices (1) • Impact of MNCs (1) local businesses may not be able to compete with more developed MNCs (1)	(4)

Question Number	Answer	Mark
4(b)(iii)	Definition of development aid (up to 1 mark) eg development aid is money and other forms of assistance that is given to less developed countries by developed countries Arguments supporting the statement with development (up to 3 marks) • Aid can support countries in developing their natural resources and power supplies. • Aid can encourage industrial development which can create jobs and improve transport infrastructure. • Projects that develop clean water and sanitation can lead to improved health and living standards which improves productivity • Aid which supports education and training will increase skills of population which improves productivity • Aid which improves infrastructure eg road building, bridges, which improves productivity Arguments not supporting the statement with development (up to 3 marks) • Corruption may lead to local politicians using aid for their own means rather than promoting economic growth. • Aid may be used for inappropriate projects that do not yield expected benefits of economic growth ('white elephant' projects) Further guidance • Up to maximum of 3 marks for a one sided argument • Up to maximum of 4 marks for a two sided argument	

	Final 2 marks requires supported judgement e.g. Aid can increase the dependency of developing nations on donor countries which might compromise future growth prospects e.g. trade rather than aid may be a better way to increase economic growth. e.g. it may be a condition of the investment that the projects are run by foreign companies or that a proportion of the resources or profits will be sent abroad.	(6)
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Question Number	Answer	Mark
4(c)(i)	International trade (1) without restriction/barriers (1)	(2)

Question Number	Answer	Mark
4(c)(ii)	Positive effects on the US economy - Protects domestic jobs - Raises revenue for the government - Improves balance of trade Negative effects on the US economy - Retaliation by China - Increases prices for US businesses - Domestic tyre industry may become less efficient over time	

	Further guidance • Up to maximum of 3 marks for a one sided argument • Up to maximum of 4 marks for a two sided argument • Final 2 marks requires supported judgement eg depends on extent of Chinese retaliation e.g. depends on size and scope of tariffs e.g. depends on price elasticity of demand	(6)
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