



# Mark Scheme (Results)

Summer 2014

Pearson Edexcel International GCSE  
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)	<ul style="list-style-type: none"> <li>An inward shift or left ward shift of the demand curve (1 mark)</li> </ul>	(1)

Question Number	Answer	Mark
1(a)(ii)	<ul style="list-style-type: none"> <li>Correct labelling of equilibrium price P1(1 mark)</li> <li>Correct labelling of equilibrium quantity Q1 (1 mark)</li> </ul>	(1)

Question Number	Answer	Mark
1(a)(iii)	<p>Identification of two factors that might cause a decrease in demand for natural rubber (1+1 marks) and their development (1+1 marks)</p> <ul style="list-style-type: none"> <li>a recession or fall in income / people have less money to spend on products</li> <li>a fall in price of substitute goods such as synthetic rubber or plastic / means it is cheaper to buy these compared to natural rubber</li> </ul>	(4)

Question Number	Answer	Mark
1(a)(iv)	<ul style="list-style-type: none"> <li>Definition of price elasticity of supply: 'the responsiveness of supply due to a change in price' (2 marks)</li> <li>Accept formula for 2 marks i.e.</li> <li><u>% change in quantity supplied</u></li> <li>% change in price</li> </ul>	(2)

Question Number	Answer	Mark
1(a)(v)	<p>Argument identified to support statement that rubber is likely to be price inelastic in supply 2 marks.</p> <ul style="list-style-type: none"> <li>• Rubber is an agricultural good/natural resource (1 mark). It takes seven years to grow the trees to maturity (1 mark)</li> </ul> <p>Reference to long run and short run up to 2 marks</p> <ul style="list-style-type: none"> <li>• Understanding that supply may be price inelastic in the short run and price elastic in the long run (1 mark) e.g. More elastic in the long run from growing additional trees/new suppliers (1 mark)</li> </ul> <p>Award 5<sup>th</sup> and 6<sup>th</sup> marks for evaluation/reasoned judgement. Factors which contradict the statement in the question (apart from SR and LR Reason (1 mark) development (1 mark) e.g.</p> <ul style="list-style-type: none"> <li>• It depends on existing stockpiles of natural rubber</li> <li>• It depends on the level of spare capacity in the industry or availability of suitable land to grow more rubber trees</li> <li>• It depends on ease of entry of new firms or farmers into the industry and what barriers might exist</li> <li>• New technology e.g. fertilisers or a way of reducing the growing period e.g. new types of rubber trees</li> </ul> <p>2 + 2 + 2 marks</p>	(6)

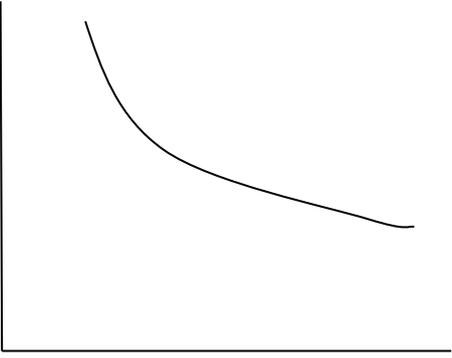
Question Number	Answer	Mark
1(b)(i)	<p>Reason identified, 1 mark. development, 1 mark. e.g.</p> <ul style="list-style-type: none"> <li>• The farms are too small to have specialised workers.</li> <li>• Lack of finance, inability to attract skilled workers</li> <li>• Production of natural rubber in each farm is too small to benefit from division of labour.</li> <li>• Difficult to break production down into separate tasks</li> <li>• One worker is able to carry out the tasks</li> </ul>	(2)

Question Number	Answer	Mark
1(b)(ii)	<p>1 mark for each advantage (no development needed) E.g.</p> <ul style="list-style-type: none"> <li>• increase in productivity or total production / so wages and living standards may rise for the workers</li> <li>• Less time required training workers / lower training costs</li> <li>• Workers become more skilled at what they do through repetition and so become faster</li> <li>• More efficient use of capital in production / better use of the machinery and other tools</li> </ul>	(2)

<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>1(b)(iii)</b>	<ul style="list-style-type: none"> <li>• An outward shift or increase in the supply curve (1 mark)</li> <li>• A lower equilibrium price (1 mark) and higher equilibrium output identified (1 mark)</li> </ul> <p>ZERO if shift supply and demand curves</p>	<b>(3)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>1(b)(iv)</b>	<p>Opportunity cost is the value of the next best / alternative foregone (1+1 marks)</p> <p>If no reference to 'next best' then award up to 1 mark e.g. give up one item and lose another</p>	<b>(2)</b>

Question Number	Answer	Mark
1(b)(v)	<p>It may be a misuse of government money because:</p> <p>Each point identified, 1 mark up to 2 points. Must have development for 3 marks.</p> <ul style="list-style-type: none"> <li>• It might make farmers inefficient in production / less competitive in the long run / dependent on the subsidy / a misallocation of resources</li> <li>• Government could spend it on healthcare or education / development of this point such as help reduce poverty or help raise productivity</li> <li>• Government could reduce taxes instead / development of this point such as help raises disposable income or increase incentive to work</li> <li>• Government could reduce its overall borrowing / development of this point such as this being a priority for many governments today since public debt is so high / create business confidence in economy</li> </ul> <p>It may not be a waste of government money because:</p> <p>Each point identified, 1 mark up to 2 points. Must have development for 3 marks. E.g.</p> <ul style="list-style-type: none"> <li>• it protects farmers income/development of this point such as protect employment/positive knock-on effects</li> <li>• It enhances competition in export markets/although it could be seen as unfair competition by rival countries</li> </ul> <p>Maximum for 1 sided arguments = 3 marks Maximum for both sides = 4 marks Must have both sides of argument for 4 marks Award 5<sup>th</sup> and 6<sup>th</sup> marks for evaluation/reasoned judgement Evaluation e.g.</p> <ul style="list-style-type: none"> <li>• depends on the size of the subsidy / time period during which subsidy is provided / whether subsidy is allocated to each natural rubber farmer /the impact on reducing absolute poverty</li> </ul>	(6)

<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>2(a)(i)</b>	Combined market share of the four largest grocery firms is 76% (1 mark)	<b>(1)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>2(a)(ii)</b>	Accept <ul style="list-style-type: none"> <li>• Oligopoly is where a few large firms (1) dominate the market (1) or</li> <li>• a small number of firms in the market (1) have a large market share (1).</li> </ul>	<b>(2)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>2(a)(iii)</b>	Identification of a price and non-price factor (1+1 marks) and development (1+1 marks) <ul style="list-style-type: none"> <li>• Price competition: Firm might reduce price / development of this point e.g. to gain customers from rival firms, or, to make the groceries more affordable (e.g. BOGOF offers etc) (1+1 marks)</li> <li>• Non-price competition: Firm might e.g. advertise, or use loyalty cards, or offer online shopping, or offer free delivery, or money back coupons / development of any one point eg a loyalty card will encourage people to shop with the same company and so get points or coupons quality, product differentiation (1+1 marks)</li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
2(a)(iv)	<ul style="list-style-type: none"> <li>Award for downward sloping average cost curve or a downward shift in the average cost curve (1 mark)</li> </ul> <p>LRAC</p>  <p style="text-align: right;">Total output</p> <p>NB: Accept diagram which shows a U-shaped curve</p>	(1)

Question Number	Answer	Mark
2(a)(v)	<p>Identify any one internal or external economy of scale (1 mark) and development of this point (1 mark)</p> <p>E.g.</p> <ul style="list-style-type: none"> <li>Bulk buying / able to negotiate lower prices for goods</li> <li>Marketing (advertising) / able to spread costs over a larger output</li> <li>Others include technical, financial, risk bearing, managerial, skilled labour, infrastructure, ancillary firms</li> </ul>	(2)

Question Number	Answer	Mark
2(a)(vi)	<p>Explanation of why diseconomies of scale and collusion can disadvantage consumers up to 4 marks.</p> <ul style="list-style-type: none"> <li>• <u>Diseconomies of scale</u> lead to higher unit production costs (1 mark)</li> <li>• 1 mark for development: so firms may pass these on to consumers through higher prices (1 mark)</li> <li>• <u>Collusion</u> means firms might agree to restrict competition between themselves to make more profit (1 mark) by raising price which makes consumers worse off (1 mark) <u>or</u> by reducing consumer choice (1 mark) <u>or</u> by reducing customer service (1 mark) <u>or</u> by cutting investment so that product quality might not improve over time (1 mark)</li> </ul> <p>Award 5<sup>th</sup> and 6<sup>th</sup> marks for evaluation/reasoned judgement/other factors</p> <p>Evaluation e.g.</p> <ul style="list-style-type: none"> <li>• Depends on the level of collusion, if any, in the oligopoly</li> <li>• <u>Competition</u> between oligopolists can work in consumers' favour (1 mark) e.g. lower prices, better quality etc (1 mark)</li> <li>• <u>economies of scale</u> not diseconomies might be achieved by the firms (1 mark) which might lead to reduced costs and prices (1 mark).</li> <li>• Consumers can benefit from collusion if it means firms invest more due to greater certainty over future profit levels.</li> <li>• depends on Government regulation to protect consumers (1 mark): Collusion is illegal with high levels of fines if found guilty so firms are unlikely to carry out this practice (1 mark)</li> <li>• Firms may even get permission to collude from regulatory authorities e.g. case of pharmaceutical companies in order to avoid duplication of research - so consumers could gain improved product quality</li> </ul>	(6)

<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>2(b)(i)</b>	Total revenue has fallen (1 mark)	<b>(1)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>2(b)(ii)</b>	<p>Identify two possible reasons (1+1 marks) and their development (1+1 marks)</p> <p>Reasons include:</p> <ul style="list-style-type: none"> <li>• Removal of regulations opens it up to competition</li> <li>• New technology such as the internet / so it is easier or quicker or cheaper to send by email</li> <li>• New firms enter the market / so they offer consumers more choice or better customer service or lower price</li> <li>• Increase in price of sending letters / so it has become less affordable</li> <li>• The recession / so people have less income to spend on letters and parcels</li> </ul>	<b>(4)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>2(b)(iii)</b>	<ul style="list-style-type: none"> <li>• Correct option <b>A</b></li> </ul>	<b>(1)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>2(b)(iv)</b>	Privatisation refers to the government selling off an industry or asset including outsourcing of services (1 mark) to the private sector (1 mark)	<b>(2)</b>

Question Number	Answer	Mark
<b>2(b)(v)</b>	<p>Must have both positive effects for both consumers and workers for 3 marks</p> <p>Positive effects of privatisation on consumers: e.g. there could be more choice / lower prices / higher consumer surplus / better customer service / increase efficiency / more services offered</p> <p>Positive effects of privatisation on workers: e.g. there could be more opportunities for promotion / new jobs created as more firms enter industry or more investment by firms</p> <p>Must have both negative effects for both consumers and workers for 3 marks</p> <p>Negative effects of privatisation on consumers: e.g. loss of economies of scale mean that prices of sending letters increase / loss of universal letter delivery service</p> <p>Negative effects of privatisation on workers: e.g. loss of jobs / lower wages / worse working conditions / flexible working hours</p>	<b>(6)</b>

<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>3(a)(i)</b>	Economic growth is an increase /change (1 mark) in (real) gross domestic product/national income/total output (1 mark)	<b>(2)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>3(a)(ii)</b>	2011 (1 mark)	<b>(1)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>3(a)(iii)</b>	<p>Economic growth might improve government finances because:</p> <ul style="list-style-type: none"> <li>• An increase in tax revenue(1 mark) as more people are employed (1 mark) for example, higher revenue from income tax and/or expenditure taxes (1 mark)</li> <li>• Less government expenditure on benefits (1 mark) as unemployment is likely to fall (1 mark) for example, Jobs seekers' Allowance or Housing benefits (1 mark).</li> <li>• Also accept increase in living standards would lead to better health and less need for benefits.</li> </ul> <p>Can have one reason or a combination for up to 3 marks.</p>	<b>(3)</b>

Question Number	Answer	Mark
3(a)(iv)	<p>Explanation of how expansionary fiscal policy is used to reduce unemployment (up to 4 marks) e.g.</p> <ul style="list-style-type: none"> <li>• Understanding of 'expansionary': higher government expenditure (1 mark) or, and lower taxation (1 mark)</li> <li>• It will increase demand/expenditure in economy (1 mark) which leads to firms raising output and so employing more workers (1 mark)</li> <li>• incomes rise so leading to further output (1 mark) and employment growth (1 mark)</li> </ul> <p><u>If refer to fiscal + monetary policy e.g. interest rates max 2 marks for first section as it demonstrates the candidate has not understood fiscal policy</u></p> <p>Evaluation/limits on success of expansionary fiscal policy (2 marks)</p> <ul style="list-style-type: none"> <li>• Unemployment could be due to structural factors rather than due to lack of demand / such as mismatch of skills or location so it wouldn't reduce unemployment (2 marks)</li> <li>• The increase in public expenditure may be directed towards imports or lead to an increase in savings – so have a limited impact on domestic demand and unemployment</li> </ul>	(6)
Question Number	Answer	Mark
3(b)(i)	<ul style="list-style-type: none"> <li>• Price level rose (1 mark)</li> </ul>	(1)
Question Number	Answer	Mark
3(b)(ii)	<ul style="list-style-type: none"> <li>• Correct option C</li> </ul>	(1)

Question Number	Answer	Mark
3(b)(iii)	<p>2 marks for effects on savings. e.g.</p> <ul style="list-style-type: none"> <li>• Less incentive to save / or, people may worry about future and save more (1+1 marks)</li> </ul> <p>2 marks for effects on wages e.g.</p> <ul style="list-style-type: none"> <li>• Wages: real value of wages may fall / if they rise at a slower rate than inflation (1+1 marks)</li> <li>• Workers may demand wage rises to keep pace with inflation / workers may be more worried about losing their job (1+1 marks)</li> <li>• An inflationary spiral might be caused if workers achieve excessive wage demands (1 mark)</li> </ul>	(4)

<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>3(c)(i)</b>	<ul style="list-style-type: none"> <li>Spain's current account deficit fell or the current account improved (1 mark)</li> <li>Data: e.g. from "-47.4bn to -14.9" or "by 32.5bn".(1 mark)</li> </ul>	<b>(2)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>3(c)(ii)</b>	<ul style="list-style-type: none"> <li>Visible trade refers to 'goods' exported or imported (1 mark)</li> <li>Invisible trade refers to 'services' exported or imported (1 mark)</li> </ul>	<b>(2)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>3(c)(iii)</b>	<p>Government policy aimed at</p> <ul style="list-style-type: none"> <li>increasing total supply of goods and services in the economy</li> <li>increasing long run competitiveness</li> <li>reducing barriers to efficiency, trade and competition</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
3(c)(vi)	<p>Explanation of how supply side policies improve a country's economic growth up to 4 marks  Policies identified 1 mark each, up to 2 marks  Development up to 2 marks  e.g.</p> <ul style="list-style-type: none"> <li>• Education and training (1 mark). Up to 2 marks for explanation e.g. could increase human capital / productivity of labour / reduce cost per unit of output / improve product quality</li> <li>• Privatisation (1 mark). Up to 2 marks for explanation e.g. means more competition between firms / forced to increase efficiency / lower prices / better product quality / increased investment / new inventions and innovations.</li> <li>• Deregulation (1 mark). Up to 2 marks for explanation e.g. means more flexible labour force / lower wage costs / higher productivity / easier for firms to respond to changing business environment / less bureaucracy</li> <li>• Accept reference to specific taxes as supply side policies ONLY if there is reference to impact on incentives e.g. cutting income tax may increase work incentives, cut in corporation tax increases incentives for enterprise</li> </ul> <p>Limitations of supply side policies on economic growth up to 2 marks.  1 mark each, up to 2 marks or 1 point + development, 2 marks</p> <ul style="list-style-type: none"> <li>• Education and training: can be ineffective if skills developed are not required / therefore not produce growth. Long term policies so little effect in short term / may be of poor quality of programmes</li> <li>• Privatisation and deregulation could lead to de-motivation of workforce as working conditions deteriorate / lower productivity / more foreign competition in domestic markets</li> <li>• Other policies could be more effective for example, fiscal, monetary or exchange rate policies</li> <li>• Supply side policies may be ineffective if major problem is a lack of aggregate demand in economy (however may stimulate growth through exports)</li> </ul>	(6)

Question Number	Answer	Mark
4(a)(i)	Correct option <b>D</b>	<b>(1)</b>
Question Number	Answer	Mark
4(a)(ii)	<p>Any two of the following factors 2 +2 marks</p> <ul style="list-style-type: none"> <li>• Taxes paid to governments (1 mark) / development of point e.g: funds can be spent on education or health care / funds can be used to reduce budget deficit (1 mark)</li> <li>• Creation of employment (1 mark) / development of point e.g.: increase income for workers and families / reduction in Investment (1 mark) / development of this point, for example, increase competitiveness of country / improve quality of labour force</li> <li>• Investment (by firm or government) on infrastructure which would benefit both industry and the people (1 mark)</li> <li>• poverty / trickle down effects (1 mark)</li> </ul>	<b>(4)</b>
Question Number	Answer	Mark
4(a)(iii)	<p>Identification of one disadvantage (1 mark) + development (1 mark) e.g.</p> <ul style="list-style-type: none"> <li>• Pollution / deforestation leads to adverse effect on the environment</li> <li>• Exploitation of workers/low wages/poor health and safety leads to lower standard of living</li> <li>• Depletion of resources leads to loss of resources for the future</li> <li>• Increased competition for domestic firms</li> <li>• Repatriation of profits</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
4(a)(iv)	<p>Accept overlap between the ideas e.g.</p> <ul style="list-style-type: none"> <li>• High profits made because of rising demand for commodities / high price of commodities / rapid growth of BRIC countries / increasing incomes in some developing countries (1+1 marks)</li> <li>• High profits made because of high investment into extracting the commodities / increase in supply of commodities / high price of commodities (1+1 marks)</li> <li>• High profits because price of commodities increasing due to decrease in supply of commodities / becoming more scarce / non-renewable (1+1 marks)</li> <li>• It is efficient and its revenue is higher than costs</li> <li>• Accept economies of scale as Xstrata is a large multinational company</li> </ul>	(2)
Question Number	Answer	Mark
4(a)(v)	<ul style="list-style-type: none"> <li>• Development aid means the transfer of resources from one country to another / no repayment required in return (1+1 marks)</li> <li>• Accept idea of provision of money or goods or food or services for free (1 mark)</li> </ul>	(2)

Question Number	Answer	Mark
4(a)(vi)	<p>Reasons why development aid can increase living standards up to 4 marks. Policies identified 1 mark each up to 2 marks Development up to 2 marks</p> <ul style="list-style-type: none"> <li>• The data in Figure 4b show that aid contributes to Gross National Income Zambia (1 mark)</li> <li>• Provide funds for increasing life expectancy (1 mark) by improving health care and famine relief (1 mark)</li> <li>• Provide funds for education projects (1 mark) which increase literacy and skills and productivity (1 mark)</li> <li>• Provide funds for infrastructure such as roads, ports or power generating plants (1 mark) which will attract foreign firms (1 mark) and help develop domestic industry (1 mark)</li> <li>• Funds to repay some of a country's debt (1 mark) so that interest payments are reduced (1 mark)</li> </ul> <p>Limitations up to 2 marks Development Aid may not increase living standards because:</p> <ul style="list-style-type: none"> <li>• Wrong type of aid e.g. military aid / tied aid / food aid could undermine agricultural sector / interest charges attached</li> <li>• Aid may not be significant as a percentage of GNI / uncertain amount from year to year / create a dependency culture</li> <li>• Conditions attached to Aid such as reduction in government expenditure e.g. on food subsidies</li> <li>• Aid may not reach those in greatest need e.g. due to corruption</li> </ul>	(6)

<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>4(b)(i)</b>	<ul style="list-style-type: none"><li>December 2012 (also accept January 2013)</li></ul> (1 mark)	<b>(1)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>4(b)(ii)</b>	<ul style="list-style-type: none"><li>US Dollar (1 mark)</li></ul>	<b>(1)</b>
<b>Question Number</b>	<b>Answer</b>	<b>Mark</b>
<b>4(b)(iii)</b>	Correct option <b>B</b>	<b>(1)</b>

Question Number	Answer	Mark
4(b)(iv)	Reason (1 mark) development (1 mark) e.g. <ul style="list-style-type: none"> <li>• it is a form of protectionism (1 mark) and gives an unfair advantage to Japanese exporters (1 mark)</li> <li>• risk a currency war - no one benefits</li> <li>• makes US and EU goods more expensive for Japanese consumers so demand falls</li> </ul>	(2)
Question Number	Answer	Mark
4(b)(v)	Trade bloc is a group of countries which join together (1 mark) to lower protection (1 mark) <u>or</u> increase trade between members (1 mark) <u>or</u> give preferential treatment to members (1 mark) or Common External Tariff (1 mark)	(2)

Question Number	Answer	Mark
4(b)(vi)	<p>1 mark for advantages identified up to 2 marks  1 mark for development up to 2 marks  Maximum 3 marks for advantages.</p> <p>Advantages include</p> <ul style="list-style-type: none"> <li>• Lower prices due to no tariffs or quotas</li> <li>• Greater choice of goods as trade increases</li> <li>• Easier access to markets so larger market for firms</li> <li>• Increased output due to increased demand/larger market</li> <li>• Benefits of specialisation/competition leads to increased efficiency</li> </ul> <p>1 mark for disadvantages identified up to 2 marks  1 mark for development up to 2 marks  Maximum 3 marks for disadvantages.</p> <p>Disadvantages include</p> <ul style="list-style-type: none"> <li>• Increased competition for home industries so may close down</li> <li>• Potential loss of employment due to closures</li> <li>• Possible loss of trade with non-member countries</li> <li>• loss on tax revenue for government</li> </ul> <p>Maximum for 1 sided arguments = 3 marks</p> <p>Must have both sides of argument for maximum 4 marks</p> <p>Award 5th and 6th marks for evaluation/reasoned judgement  Evaluation e.g.</p> <ul style="list-style-type: none"> <li>• Competitiveness of home industries is important</li> <li>• Discussion of trade creation versus trade diversion</li> <li>• Slows globalisation</li> </ul>	(6)



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