



Mark Scheme (Results)

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Economics (4ECO) Paper 1

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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)	2007	(1)

Question Number	Answer	Mark
1(a)(ii)	2010	(1)

Question Number	Answer	Mark
1(a)(iii)	Supply shifts to left (1 mark) Price rises above 2950 quantity falls(1 mark) No marks if both supply and demand curves shift	(2)

Question Number	Answer	Mark
1(a)(iv)	Demand curve shifts to right, 1 mark Price rises above 2950 quantity stays the same (1 mark) No marks if both supply and demand curves shift UNLESS they add the Supply curve shifting to the left AND labelled 2012 AND the correct new demand curve.	(2)

Question Number	Answer	Mark
1(a)(v)	Responsiveness of quantity supplied to a change in price (2 marks) Also accept formula for 2 marks e.g. <u>%change in quantity supplied</u> % change in price Vague definitions 1 mark e.g. <u>%change in quantity</u> % change in price	(2)

Question Number	Answer	Mark
1(a)(vi)	Perfectly inelastic	(1)

Question Number	Answer	Mark
1 (a) (vii)	<p>Each reason why supply is easier to increase, 1 mark (up to 2 marks) e.g. manufactured good, stocks. Development up to 2 marks e.g. firms can hold stocks of finished good (chocolate) and also stocks of cocoa beans.</p> <p>Each reason why supply of cocoa beans cannot be increased easily, 1 mark (up to 2 marks). E.g. primary (agricultural) product. Development up to 2 marks e.g. there is a time lag between planting cocoa trees and harvesting cocoa beans.</p> <p>One-sided argument up to 3 marks Must have both sides of the argument for 4 marks Award 5th and 6th mark for evaluation/reasoned judgement. Accept reference to factors which limit the supply of chocolate e.g. supply of cocoa beans.</p>	(6)

Question Number	Answer	Mark
1 (b) (i)	<p>Definition: Responsiveness of quantity demanded to a change in income, 2 marks. Also accept equation (2 marks): $\frac{\% \text{change in } Q_d}{\% \text{ change in income}}$ Vague definitions 1 mark.</p>	(2)

Question Number	Answer	Mark
1 (b) (ii)	An inferior good	(1)

Question Number	Answer	Mark
1 (b) (iii)	<p>Definition of inferior good with no reference to data = 1 mark e.g. Inferior good = incomes fall, demand increases <u>or</u> vice versa If refer to either income data (fall by 3%) <u>or</u> demand data (rises by 9%) then 1 mark. e.g. if incomes fall by 3% the demand for chocolate rises (2 marks)</p> <p>If refer to both sets of data and also explain the relationship = 3 marks: e.g. Incomes fall by 3% but demand for chocolate rises by 9%.</p>	(3)

Question Number	Answer	Mark
1(c)(i)	Definition: breaking down of a job into smaller tasks (2 marks) Vague definition e.g. when each worker is given a separate job/task. 1 mark Example 1 mark.	(3)

Question Number	Answer	Mark
1(c)(ii)	Each reason identified why firms benefit from division of labour, 1 mark (up to 2 marks) e.g. increases productivity, saves time, machinery. Development up to 2 marks e.g. as workers become more skilled they produce more. Each reason why workers do not benefit 1 mark (up to 2 marks) e.g. boredom, monotony, immobility, risk of unemployment. Development up to 2 marks e.g. workers only skilled in one part of process so may be easily replaced by machines. One-sided argument up to 3 marks Must have both sides of the argument for 4 marks Award 5 th and 6 th mark for evaluation/reasoned judgement. Accept limitations to benefits for firms and/or benefits for workers. E.g. firms may not always benefit as it could lead to worker unrest. Workers may benefit if firms use motivation schemes like piece-work to keep workers happy.	(6)

Question Number	Answer	Mark
2(a)(i)	Shareholders	(1)

Question Number	Answer	Mark
2(a)(ii)	1 mark only for "Total costs increase". 1 mark for calculation i.e.: 10,000 x 50HKD = 500,000 HKD 20,000 x 40HKD = 800,000 HKD or 2 marks for : Total costs in 2011 = 10,000 x 50HKD = 500,000 HKD Total costs in 2012 = 20,000 x 40HKD = 800,000 HKD	(2)

Question Number	Answer	Mark
2(a)(iii)	1 mark for the formula: $TR-TC = \text{profit}$ 1 mark for answer: 200,000HKD or 2 marks for calculating profit and showing workings $\text{Profit} = 1,000,000 - 800,000 = 200,000\text{HKD}$	(2)

Question Number	Answer	Mark
2(b)(i)	Definition 1 mark: as output increases, cost per unit falls. Reference to Table 2a, 1 mark. Could give output figures <u>or</u> average costs. The following would score 2 marks: Output increases from 10,000 to 20,000 and average cost falls 50HKD to 40HKD.	(2)

Question Number	Answer	Mark
2(b)(ii)	Each economy identified, 1 mark. E.g. bulk buying, division of labour. Accept general economies e.g. financial, marketing. Accept internal and external as two economies of scale. Explanation, 1 mark e.g. bulk buying can result in per unit costs of raw materials falling. 2+2 marks	(4)

Question Number	Answer	Mark
2(b)(iii)	Reason identified, 1 mark e.g. lack of finance, demand. Development, 1 mark e.g. banks may not loan money to small business so that they can't expand.	(2)

Question Number	Answer	Mark
2(b)(iv)	<p>Each reason for government encouraging small firms, 1 mark (up to 2 marks) e.g. increases employment, economic growth, exports.</p> <p>Development up to 2 marks e.g. small firms will employ workers thus reducing unemployment. If they grow larger then this will further reduce unemployment.</p> <p>Each reason for government not encouraging small firms 1 mark (up to 2 marks) e.g. opportunity cost, small firms have low survival rate.</p> <p>Development up to 2 marks e.g. the government could spend the money on large firms (MNC's) or on other factors which will increase economic growth.</p> <p>One-sided argument up to 3 marks</p> <p>Must have both sides of the argument for 4 marks</p> <p>Award 5th and 6th mark for evaluation/reasoned judgement.</p> <p>e.g. small firms should be encouraged if government is sure they will survive but sometimes it may be better to encourage established firms, especially in times of recession</p>	(6)

Question Number	Answer	Mark
2(c)(i)	<p>Accept equation for 2 marks</p> $\text{Externalities} = \text{Social costs} - \text{private cost}$ <p>Also accept third party effects arising from the production and/or consumption of goods and services,</p>	(2)

Question Number	Answer	Mark
2(c)(ii)	<p>Each negative externality identified, 1 mark (up to 2) e.g. pollution, loss of country's culture/identity. Development up to 2 marks e.g. tourists may destroy the environment e.g. the reefs of the Seychelles.</p> <p>Each benefit identified, 1 mark (up to 2) e.g. increases exports, employment. Development up to 2 marks e.g. tourists buy currency of the country and spend it in hotels. This is an invisible export.</p> <p>One-sided argument up to 3 marks Must have both sides of the argument for 4 marks Award 5th and 6th mark for evaluation/reasoned judgement.</p> <p>E.g. The benefits can lead to economic growth which can lead to higher standard of living. If the costs are short-term then the problem is not great but if the externalities lead to the destruction of the environment this might lead to less tourism.</p>	(6)

Question Number	Answer	Mark
2(c)(iii)	<p>Method identified, 1 mark e.g. fines, taxes Type of pollution it will reduce 1 mark e.g. litter, airplane emissions Development, 1 mark e.g. use the revenue to fund protection of the environment.</p>	(3)

Question Number	Answer	Mark
3(a)(i)	Personal income tax	(1)

Question Number	Answer	Mark
3(a)(ii)	<p>If candidates answer in (a)(i) Personal income tax or corporation tax then: Direct tax (1 mark) Explanation: e.g. Direct taxes are levied on income/wealth (1 mark) not on expenditure (1 mark) e.g. Paid to the government by the income earner not through a third party like indirect taxes (2 marks)</p> <p>If candidates answer in (a)(i) sales tax or import duties etc then: Indirect tax (1 mark) Explanation: Indirect taxes are levied on expenditure (1 mark) not on income (1 mark) e.g. paid through a third party (1 mark)</p>	(3)

Question Number	Answer	Mark
3(a)(iii)	<p>Indirect taxes = sales tax (1 mark) + Import duties and taxes on alcohol and tobacco (1 mark) Answer = 20% (1 mark) Or accept $12\% + 8\% = 20\%$ (3 marks)</p>	(3)

Question Number	Answer	Mark
3(b)(i)	Government expenditure is greater than government revenue	(1)

Question Number	Answer	Mark
3(b)(ii)	<p>Improvement (1 mark) Reference to data 2 marks: 2009-2010 deficit = 55.6\$bn 2010-2011 deficit = 33.4\$bn</p>	(3)

Question Number	Answer	Mark
3(b)(iii)	2009 (1 mark)	(1)

Question Number	Answer	Mark
3(b)(iv)	<p>As economic growth becomes negative unemployment rises (1 mark)</p> <p>Only if candidates have the relationship between economic growth and unemployment as above can candidates achieve marks for data.</p> <p>1 mark for economic growth data 2008-2009 in the range -2.1% to -2.5%</p> <p>1 mark for unemployment data in the range 8% to 8.4%</p> <p>e.g.</p> <p>Candidates can achieve 3 marks for stating "economic growth becomes negative -2.5% which results in unemployment increasing to 8%"</p>	(3)

Question Number	Answer	Mark
3(b)(v)	<p>Each reason 1 mark up to 2 marks e.g. increases spending power/disposable income</p> <p>Development up to 2 marks e.g. as people spend more so demand increases and firms employ more workers so unemployment falls.</p> <p>Limitations to this policy: each one identified, 1 mark up to 2 marks e.g. extra disposable income may be spent on imports, may be saved.</p> <p>Development up to 2 marks e.g. if money is spent on imports then the money will leave the country and have no effect on employment in domestic firms.</p> <p>e.g. government revenue falls so unemployment may increase in public sector.</p> <p>One-sided argument up to 3 marks</p> <p>Must have both sides of the argument for 4 marks</p> <p>Award 5th and 6th mark for evaluation/reasoned judgement.</p> <p>E.g. The government can introduce other measures to try to ensure that the extra disposable income is spent within the country e.g. measures to make domestic goods more attractive than imports or reduction in interest rates so saving isn't attractive.</p> <p>Also accept reference to a reduction in direct taxes will only benefit those who pay them i.e. the employed and in a recession this number is reduced.</p>	(6)

Question Number	Answer	Mark
3(c)(i)	Definitions: e.g. Long-term unemployment caused by the decline in demand for products of an industry. (2 marks) e.g. decline in an industry (1 mark) where workers have specialised skills so can't find another job (1 mark) 1 mark for example e.g. textile industry in UK	(3)

Question Number	Answer	Mark
3(c)(ii)	Example of supply side policy 1 mark, E.g. education and training, reduce minimum wage rate, power of trade unions. Explanation of how it works up to 2 marks e.g. improves occupational mobility, reduces labour market barriers. Limitations of this supply side policy up to 3 marks e.g. education and training may improve mobility but there needs to be jobs available which require these skills. Time element may mean no change in the short run.	(6)

Question Number	Answer	Mark
4(a)(i)	Increase	(1)

Question Number	Answer	Mark
4(a)(ii)	Before March 2012 there had been a ban/no imports of beef (1 mark) After March 2012 the EU set a quota/limited amount (1 mark) of 48,200 tonnes of beef (1 mark)	(3)

Question Number	Answer	Mark
4(a)(iii)	On diagram 1 mark for shift of supply curve to the left 1 mark for new price and quantity	(2)

Question Number	Answer	Mark
4(a)(iv)	On diagram 2 marks for new perfectly inelastic supply curve to the left of the original 1 mark for new price and quantity	(3)

Question Number	Answer	Mark
4(a)(v)	Each method identified, 1 mark e.g. exchange controls, red tape. Explanation, 1 mark e.g. exchange controls limit the amount of foreign currency available to buy imports. 2+ 2 marks	(4)

Question Number	Answer	Mark
4(a)(vi)	Each benefit identified, 1 mark (up to 2) e.g. employment, strategic, balance of payments. Development up to 2 marks e.g. if cheap food is imported then farmers may go out of business and farm workers will be unemployed. Each disadvantage identified, 1 mark (up to 2) e.g. domestic food prices may be higher than imports, less choice. Development up to 2 marks e.g. if home grown products go up in price then the cost of living may rise and the standard of living may fall. One-sided argument up to 3 marks Must have both sides of the argument for 4 marks Award 5 th and 6 th mark for evaluation/reasoned judgement. Reference to reasons for protection and their relevant importance e.g. may have to import food if not enough supplied by domestic farmers, in long run protection may lead to increased home production – self-sufficiency.	(6)

Question Number	Answer	Mark
4(b)(i)	Financial incentive identified, 1 mark e.g. loan, grant, tax holiday. Explanation, 1 mark e.g. cheaper to buy capital/to set up in the country. Non-financial incentive identified, 1 mark e.g. advice, less bureaucracy. Explanation, 1 mark e.g. advice and information about planning and building laws. Fast-track plans to build.	(4)

Question Number	Answer	Mark
4(b)(ii)	Foreign direct investment	(1)

Question Number	Answer	Mark
4(b)(iii)	Each benefit of removing incentives identified 1 mark (up to 2) e.g. opportunity cost of incentives, less competition, less foreign firms. Development up to 2 marks e.g. the money given to foreign firms can be used to improve domestic firms. Each disadvantage of removing incentives 1 mark (up to 2) e.g. less prospect of decreasing unemployment, less choice. Development up to 2 marks e.g. foreign firms employ domestic workers but this will not happen if they don't move to the country. One-sided argument up to 3 marks Must have both sides of the argument for 4 marks Award 5 th and 6 th mark for evaluation/reasoned judgement. e.g. foreign firms may continue to set up even without the government incentives due to other factors like cheap labour.	(6)

