



Mark Scheme (Results)

Summer 2016

Pearson Edexcel International GCSE  
in Economics (4ECO) Paper 01

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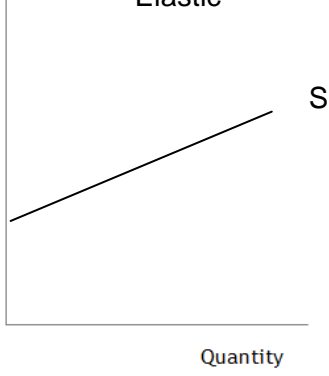
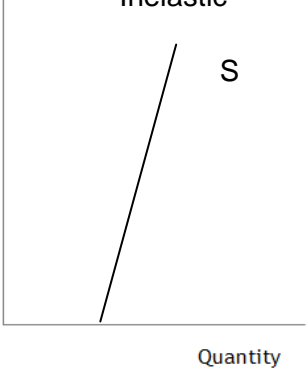
## General Marking Guidance

- 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
<b>1(a)(i)</b>	an increase in the wages of coffee plantation workers	<b>(1)</b>

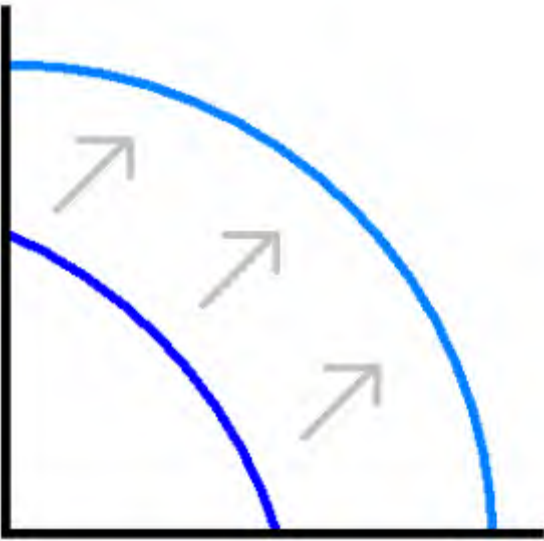
Question Number	Answer	Mark
<b>1(a)(ii)</b>	<p>Identification of a factor (1 mark) with development (1 mark)</p> <p>Factors leading to a downwards trend in prices e.g.</p> <ul style="list-style-type: none"> <li>• Incomes</li> <li>• Price of substitutes</li> <li>• Tastes and fashions</li> </ul> <p>Development of each factor e.g.</p> <ul style="list-style-type: none"> <li>• Less disposable income therefore consumers reduce consumption to save money</li> <li>• Price of substitute goods falls so consumers switch to cheaper drinks</li> <li>• Health scare about drinking coffee so consumers switch to healthier alternatives</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>1(a)(iii)</b>	<p>Identification of a factor (1 mark) with development (1 mark)</p> <p>Factors leading to a downwards trend in prices e.g.</p> <ul style="list-style-type: none"> <li>• Costs of production</li> <li>• Indirect taxes</li> <li>• Natural factors</li> <li>• Subsidies</li> </ul> <p>Development of each factor e.g.</p> <ul style="list-style-type: none"> <li>• Reduction in any of the costs such as raw materials increases profitability and greater supply</li> <li>• Favourable weather means there is a good harvest and increased supply</li> <li>• A subsidy given to coffee producers reduces the cost of producing coffee</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<p><b>1(a)(iv)</b></p>	<div style="display: flex; justify-content: space-around; align-items: flex-start;"> <div style="text-align: center;"> <p><b>Elastic</b></p>  </div> <div style="text-align: center;"> <p><b>Inelastic</b></p>  </div> </div> <p>Up to 3 marks for diagrams</p> <ul style="list-style-type: none"> <li>• Correct elastic curve</li> <li>• Correct inelastic curve</li> <li>• Use of diagram to illustrate respective changes in P&amp;Q</li> </ul> <p>Up to 3 marks for written explanation</p> <ul style="list-style-type: none"> <li>• Price elastic supply is more responsive to a change in price (1) OR % change in Q greater than % change in P</li> <li>• Price inelastic supply is less responsive to a change in price (1) OR % change in Q less than % change in P</li> <li>• Further relevant development such as use of numerical values (1)</li> </ul> <p>NB Accept perfectly elastic and inelastic</p>	<p><b>(5)</b></p>

Question Number	Answer	Mark
<p><b>1(b)(i)</b></p>	<p>Up to 2 marks for definition</p> <p>The amount of resources available is limited (finite) (1) to satisfy unlimited (infinite) needs and wants (1)</p>	<p><b>(2)</b></p>

Question Number	Answer	Mark
<b>1(b)(ii)</b>	What to produce, How to produce, For whom to produce	<b>(1)</b>

Question Number	Answer	Mark
<b>1(b)(iii)</b>	<p>Award 1 mark for outward shift of production possibility curve.</p> 	<b>(1)</b>

Question Number	Answer	Mark
<p><b>1(b)(iv)</b></p>	<p>Likely positive effects include:</p> <ul style="list-style-type: none"> <li>• Increase in economic growth</li> <li>• Decrease in energy prices</li> <li>• Increase in employment opportunities</li> <li>• Potential to increase exports and improve current account</li> <li>• PPC shifts outwards, therefore increases ability to meet more needs and wants</li> </ul> <p>Likely negative effects:</p> <ul style="list-style-type: none"> <li>• Potential damage to environment which may impose costs on the economy to correct</li> <li>• Negative externalities eg earthquakes, reduce house prices in the local area</li> <li>• Promotes use of non-renewables rather than renewable energy sources</li> </ul> <p><b>Further guidance</b></p> <ul style="list-style-type: none"> <li>• Up to maximum of 3 marks for a one sided argument</li> <li>• Up to maximum of 4 marks for a two sided argument</li> </ul> <p>Final 2 marks requires supported judgement e.g. size of the impact will depend on:</p> <ul style="list-style-type: none"> <li>• Safeguards/regulations</li> <li>• How much shale gas is found</li> <li>• Costs of extraction (both private and external cost)</li> <li>• Shale gas may run out soon or be too hard to extract from the ground</li> </ul>	<p style="text-align: right;"><b>(6)</b></p>

Question Number	Answer	Mark
<b>1 (c) (i)</b>	Public sector is state owned (1) and controlled by the state (1)  Accept use of examples for 1 mark  e.g. the state provides goods and services (1) e.g. healthcare (1);	<b>(2)</b>

Question Number	Answer	Mark
<b>1 (c) (ii)</b>	It has fallen (1) from approx 950,000 to approx 650,000 (1)  Accept any reasonable attempt at estimating the numbers	<b>(2)</b>



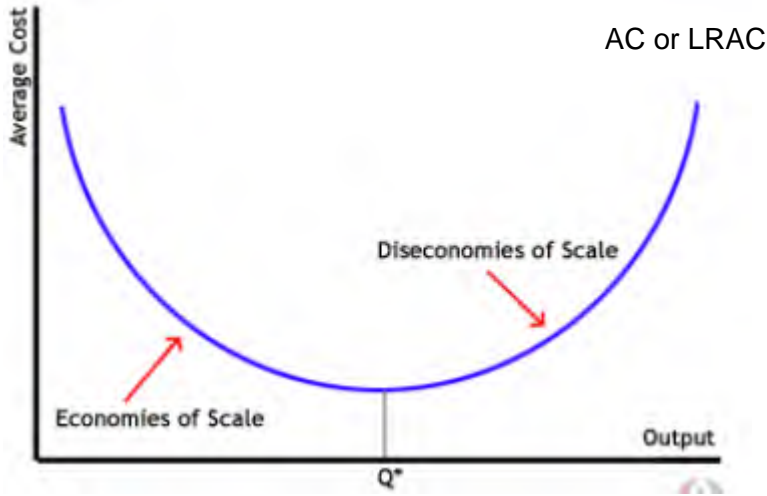
Question Number	Answer	Mark
<p><b>1 (c) (iii)</b></p>	<p>Arguments supporting the statement (up to 2 marks)</p> <p>Increase job losses because:</p> <ul style="list-style-type: none"> <li>• Cost more to employ them which means that the government will want to keep overall costs the same so they will reduce the number of workers employed</li> <li>• Job cuts may have been negotiated with the unions to secure the 15% wage increase</li> </ul> <p>Arguments not supporting the statement</p> <ul style="list-style-type: none"> <li>• Depends if government decides to absorb the increase in labour costs</li> <li>• Government may be able to offset the increase in labour costs with costs savings elsewhere (eg spend less on IT for the bank branches)</li> <li>• Depends if the bank is opening more branches</li> <li>• Depends if workers increase productivity</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Up to maximum of 3 marks for a one sided argument</li> <li>• Up to maximum of 4 marks for a two sided argument</li> <li>• Final 2 marks requires supported judgement eg <ul style="list-style-type: none"> <li>• Depends if any job losses are accounted for by people retiring</li> <li>• Depends on size of wage increase</li> </ul> </li> </ul>	<p style="text-align: right;"><b>(6)</b></p>

Question Number	Answer					Mark
<b>2(a)(i)-(iii)</b>	Output (number of journeys)	Total fixed costs £	Total variable costs £	Total cost £	Average total cost £	
	1 000	(i)	5 000	6 000	(ii)	
	2 000	1 000	9 000	(iii)	5	
	(i) 1 000 (1) (ii) 6 (1) (iii) 10 000 (1)					<b>(3)</b>

Question Number	Answer	Mark
<b>2(a)(iv)</b>	e.g. Rent on taxi office, Leasing cars, Insurance, Heating, Office staff eg radio controller, business rates, licence fee, road tax on taxis, salaries for taxi drivers ( <i>if</i> paid the same daily/monthly amount regardless of number of journeys completed)	<b>(1)</b>

Question Number	Answer	Mark
<b>2(a)(v)</b>	e.g. Fixed costs do not vary with output (1) rent/insurance/salaries etc. do not change regardless of the number of taxi journeys completed (1)	<b>(2)</b>

Question Number	Answer	Mark
<b>2(a)(vi)</b>	<p>Total Profit = Total revenue – Total cost (1)</p> <p>£22 000 – £10 000 = £12 000 (1)</p> <p><b>OR</b></p> <p>Total revenue = £11 x 2000 = £22 000 (1)</p> <p>Therefore Profit = £22 000 – £10 000 = £12 000 (1)</p> <p>N.B. If £ sign missing from answer award just 1 mark</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>2(b)(i)</b>	 <p>Up to 3 marks for correct diagram</p> <p>Marks awarded for</p> <ul style="list-style-type: none"> <li>• 'U' shaped curve</li> <li>• Economies of scale indicated</li> <li>• Diseconomies of scale indicated</li> </ul> <p>Up to 2 marks for definitions</p> <ul style="list-style-type: none"> <li>• Economies of scale: average costs fall as scale of output increases (1)</li> <li>• Diseconomies of scale: average costs rise as scale of output increases (1)</li> </ul>	<b>(5)</b>

Question Number	Answer	Mark
<b>2(b)(ii)</b>	<p>Arguments supporting the statement (up to 2 marks)</p> <p>External economies of scale are important because</p> <ul style="list-style-type: none"> <li>• a pool of skilled labour builds up in the area making it easier for all firms to recruit and lowers training costs.</li> <li>• Infrastructure and services also build up in the area making supply and communications easier</li> <li>• Co-operation between firms and establishments such as training facilities</li> </ul> <p>Arguments not supporting the statement (up to 2 marks)</p> <p>External economies of scale are not important because</p> <ul style="list-style-type: none"> <li>• Other considerations may be more important such as availability of land/raw materials etc.</li> <li>• Location may not be important and be cheaper elsewhere</li> <li>• May not need trained labour or other firms</li> <li>• May lead to excessive local competition</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Up to maximum of 3 marks for a one sided argument</li> <li>• Up to maximum of 4 marks for a two sided argument</li> <li>• Final 2 marks requires supported judgement eg Depends on nature of industry e.g. depends on extent and scope of existing/potential external economies of scale</li> </ul>	<b>(6)</b>

Question Number	Answer	Mark
<b>2(c)(i)</b>	Social benefit = private benefit + external benefit	<b>(1)</b>

Question Number	Answer	Mark
<b>2(c)(ii)</b>	<p>Identification of private benefit (1) development of private benefit (1) e.g.</p> <ul style="list-style-type: none"> <li>• easier to travel (1) shorter journey times/ easier access/more pleasant travelling experience (1)</li> <li>• profit for company (1) enabling greater return/increased investment (1)</li> <li>• job creation (1) working on the new railway or ticket offices generates incomes for people (1)</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>2(c)(iii)</b>	<p>Identification of external benefit (1) development of external benefit (1) e.g.</p> <ul style="list-style-type: none"> <li>• Less pollution (1) less cars on the road, cleaner for the environment (1)</li> <li>• encourage tourism (1) as easier to travel across London (1)</li> <li>• encourage firms to locate to the area (1) as improved transport routes/infrastructure across London (1)</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>2(c)(iv)</b>	<p><b>Two</b> methods required - identification of methods (1), explanation of how the method would reduce car pollution (1), evaluation of chosen method (1)</p> <p>Possible methods x2 could include:</p> <ul style="list-style-type: none"> <li>• Taxation (1) increasing price of cars/petrol reduces consumption (1) will not deter people with high incomes</li> <li>• Subsidies (1) e.g. to firms to make cleaner cars or public transport (1) cost to taxpayer</li> <li>• Regulation (1) e.g. CO2 emission requirements on new cars (1) can take time to be effective</li> </ul>	<b>(6)</b>

Question Number	Answer	Mark
<b>3(a)(i)</b>	<p>Fluctuations (1) around the trend growth rate (1)</p> <p>Fluctuations (1) between periods of growth and decline (1)</p> <p><b>Or</b> reference to all 4 stages of the economic cycle eg boom, recession, slump, recovery (2) accept any reasonable description of the 4 stages eg downturn, depression, or similar.</p> <p>1 mark for vague definition "cycle between boom and bust"</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>3(a)(ii)</b>	<p>Reference to data up 2 marks</p> <p>Explanation up to 2 marks</p> <p>Two consecutive periods (1) of negative growth (1)</p> <p>1 mark for vague definition eg</p> <ul style="list-style-type: none"> <li>• GDP is falling (1)</li> <li>• the economy is not growing (1)</li> <li>• the economy is shrinking (1)</li> </ul> <p><b>Further guidance</b></p> <p>Cap at <b>maximum of 2 marks</b> if no references to the data</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>3(a)(iii)</b>	Characteristics include: <ul style="list-style-type: none"> <li>• GDP falling/negative</li> <li>• Rising/high unemployment</li> <li>• Business confidence low/falling</li> <li>• Inflation rate is low or prices are falling (deflation)</li> <li>• AD falls</li> <li>• Businesses go bankrupt</li> <li>• Government expenditure on benefits is rising</li> <li>• Government tax receipts may fall</li> <li>• Firms make losses or make smaller profits</li> </ul>	<b>(1)</b>

Question Number	Answer	Mark
<b>3(a)(iv)</b>	Identification of limitation of GDP (1) explanation limitation (1) e.g. <ul style="list-style-type: none"> <li>• Different countries might record data differently (1) making inter country comparisons difficult (1)</li> <li>• Hard to get accurate/up to date data (1) making comparisons less accurate and meaningful (1)</li> <li>• Does not include hidden economy (1) therefore not accurate because of unrecorded economic activity (1)</li> <li>• Inflation (1) raw figures do not reflect changes in the real value GDP (1)</li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
<p><b>3(a)(v)</b></p>	<p>Up to two marks how expansionary fiscal policy could stimulate economic growth</p> <ul style="list-style-type: none"> <li>• Increase budget deficit (eg <math>G &gt; T</math>) which will increase aggregate demand</li> <li>• Increase government expenditure eg build more schools and hospitals – this will lead to increase in jobs and more spending in the economy</li> <li>• Cut taxes for individuals so they have more disposable income</li> <li>• Cut taxes for firms so they have more profits to invest</li> </ul> <p>Up to two marks for discuss of why expansionary fiscal policy might not work, or discussion of alternatives</p> <ul style="list-style-type: none"> <li>• If individuals are worried about losing their job they will not spend extra income following tax cuts</li> <li>• If unemployed then tax cut has little effect</li> <li>• Firms may chose to use tax cut to pay off debt rather than increase spending on investment</li> <li>• If there is a global recession exports may fall which might offset any increase in domestic spending</li> <li>• Households might spend extra money on imports</li> </ul> <p>Further guidance</p> <p>Up to 3 marks for one side argument</p> <p>Up to 4 marks for two sided argument</p> <p>Up to two marks for justified conclusion e.g.</p> <p>Depends on other economic variables - exchange rate</p> <p>Depends on size of the fiscal stimulus</p> <p>Depends on monetary policy/supply side policy</p>	<p style="text-align: right;"><b>(6)</b></p>



Question Number	Answer	Mark
<b>3(b)(i)</b>	Identification of function (1) explanation of function (1) <ul style="list-style-type: none"> <li>• Medium of exchange (1) can be used to facilitate trade in goods and services (1)</li> <li>• Unit of account (1) money is used to measure the value of goods and services (1)</li> <li>• Store of value (1) it can be stored for a period of time and used at a later date</li> <li>• Method of deferred payment (1) can be used to settle a debt (1)</li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
<b>3(b)(ii)</b>	Cost push	<b>(1)</b>

Question Number	Answer	Mark
<b>3(b)(iii)</b>	Leads to too much money chasing too few goods/leading to increased demand (1) which leads to a rise in prices and inflation (1)	<b>(2)</b>

Question Number	Answer	Mark
<b>3(b)(iv)</b>	<p><b>Two</b> negative consequences required - identification of negative consequence (1), explanation of impact of negative consequence (1), evaluation of chosen impact (1)</p> <ul style="list-style-type: none"> <li>• Loss of international competitiveness (1) price of Spanish exports rise reducing demand (1) depends on relative inflation rates of competitors/PED for exports</li> <li>• Increased business costs (1) labour costs may rise to maintain living standards (1) depends if labour has ability to negotiate increase or not (1)</li> <li>• Impact on households with fixed incomes (1) real value of incomes decreases reducing living standards (1) depends on extent of inflation (1)</li> </ul>	<b>(6)</b>

Question Number	Answer	Mark
<b>4(a)(i)</b>	<p>Firms/individuals/financial institutions buying and selling currency (1) in the hope of making a capital gain (profit) (1)</p> <p>OR Firms/individuals/financial institutions buying a currency when its value is low (1) in the expectation of the value rising (1)</p> <p>OR Firms/individuals/financial institutions selling a currency when its value is high (1) in the expectation of the value falling (1)</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>4(a)(ii)</b>	Depreciate	<b>(1)</b>

Question Number	Answer	Mark
<b>4(a)(iii)</b>	Appreciate	<b>(1)</b>

Question Number	Answer	Mark
<b>4(a)(iv)</b>	Depreciate	<b>(1)</b>

Question Number	Answer	Mark
<b>4(a)(v)</b>	<p>Foreign firms will demand the currency (1) to be able to pay for the investment (1)</p> <p>OR an applied example e.g.</p> <p>An American MNC building a factory in the UK will need to exchange \$ for £ (1) to pay for materials, labour and other resources required for the construction (1)</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>4(a)(vi)</b>	If the currency appreciates the price of imports will fall (1) as less domestic currency needs to be exchanged (1) therefore demand for imports is likely to increase (1)	<b>(3)</b>

Question Number	Answer	Mark
<b>4(b)(i)</b>	<p>Identification of activity (1) explanation of activity (1)</p> <ul style="list-style-type: none"> <li>• Settling trade disputes (1) in the event of a dispute the WTO will organise meetings to resolve the dispute (1)</li> <li>• Reducing or eliminating trade barriers (1) the WTO encourages countries to join the WTO and to reduce trade barriers amongst member states (1)</li> <li>• Helping developing countries (1) by encouraging greater trade the economies of developing nations may expand (1)</li> </ul>	<b>(4)</b>

Question Number	Answer	Mark
<b>4(b)(ii)</b>	<p>A group of countries (1) that join together and make a free trade area/removes barriers to trade between member countries (1).</p> <p>A group of countries (1) that have common tariffs on imports from non-member countries (1)</p> <p>Vague definition 1 mark e.g.</p> <p>Countries agree to stimulate trade (1)</p> <p>Reduction in trade barriers (1)</p>	<b>(2)</b>

Question Number	Answer	Mark
<p><b>4(b)(iii)</b></p>	<p>Advantages</p> <ul style="list-style-type: none"> <li>• Free trade within the area/no protection/no tariff barriers</li> <li>• Larger markets</li> <li>• Exploit economies of scale/specialisation</li> <li>• Lower prices greater choice</li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• Formation of regional monopolies</li> <li>• Inability of country to compete with member countries</li> <li>• Countries may rely too heavily on trade within the bloc</li> </ul> <p><b>Further guidance</b></p> <p>Up to 3 marks for a one sided argument</p> <p>Up to 4 marks for a two sided argument</p> <p>Final 2 marks requires supported judgement e.g.</p> <p>Depends on the ability of country to compete within the region</p> <p>Depends on the level of trade with non-member countries</p> <p>Depends on stage of economic development of the joining member</p> <p>Note: Evaluation can also take the form of counter argument to either the advantage or disadvantage e.g. one advantage of trade bloc is lower prices and greater choice for consumers however this benefit is limited if there are regional monopolies.</p>	<p style="text-align: right;"><b>(6)</b></p>

Question Number	Answer	Mark
<b>4(c)(i)</b>	<p>An amount of money owed by one country (1) to other countries (1).</p> <p>The total debt a country owes (1) to foreign creditors (1)</p>	<b>(2)</b>

Question Number	Answer	Mark
<b>4(c)(ii)</b>	<p>Definition of aid (up to 1 mark) e.g. aid is money and other forms of assistance that is given to less developed countries by developed countries</p> <p>Arguments supporting the statement with development (up to 3 marks)</p> <ul style="list-style-type: none"> <li>• Aid can support countries in developing their natural resources and power supplies.</li> <li>• Aid can encourage industrial development which can create jobs and improve transport infrastructure.</li> <li>• Projects that develop clean water and sanitation can lead to improved health and living standards which improves productivity</li> <li>• Aid which supports education and training will increase skills of population which improves productivity</li> <li>• Aid which improves infrastructure e.g. road building, bridges, which improves productivity</li> </ul> <p>Arguments not supporting the statement with development (up to 3 marks)</p> <ul style="list-style-type: none"> <li>• Corruption may lead to local politicians using aid for their own means rather than promoting economic growth.</li> <li>• Aid may be used for inappropriate projects that do not yield expected benefits of economic growth ('white elephant' projects)</li> </ul>	

	<p><b>Further guidance</b></p> <ul style="list-style-type: none"><li>• Up to maximum of 3 marks for a one sided argument</li><li>• Up to maximum of 4 marks for a two sided argument</li></ul> <p>Final 2 marks requires supported judgement</p> <p>e.g. Aid can increase the dependency of developing nations on donor countries which might compromise future growth prospects</p> <p>e.g. trade rather than aid may be a better way to increase economic growth.</p> <p>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.</p>	<p>(6)</p>
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