



**Pearson
Edexcel**

Mark Scheme (Results)

Summer 2018

**Pearson Edexcel International GCSE
In Economics (4EC0/01)**

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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	In Figure 1a the change in price from P to P_1 is most likely to have been caused by	Mark
1(a)(i)	D - a decrease in the price of a substitute.	(1)

Question Number	Explain the reason for your answer to (a) (i).	Mark
1(a)(ii)	If a substitute is cheaper, more consumers will demand it (1) fewer will buy the original product (1)	(2)

Question Number	What is meant by 'price elasticity of demand'?	Mark
1(b)(i)	The responsiveness of quantity demanded (1) to a change in price (1) Accept correct formula (2) Vague definition (1)	(2)

Question Number	Suggest two possible reasons why the global demand for chocolate bars is price inelastic.	Mark
1(b)(ii)	1 mark for reason, 1 mark for development e.g. small proportion of income (1) a chocolate bar is a relatively small part of most people's incomes; therefore, a price rise has little impact (1) There are few substitutes (1) for many people nothing is as good as chocolate and therefore they will continue to buy it despite price increases (1)	(4)

Question Number	Price elasticity of demand is the most important factor for Cadbury to consider when deciding whether to increase prices. Do you agree with this statement? Explain your answer.	Mark
1(b)(iii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Price elasticity of demand is the most important factor for Cadbury to consider because:</p> <ul style="list-style-type: none"> • If it is elastic a price increase will lead to a more than proportional fall in quantity sold • And, a fall in TR • They may lose competitive advantage to rivals <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>price elasticity of demand is not the most important factor for Cadbury to consider because:</p> <ul style="list-style-type: none"> • They may have little choice due to rising costs • Their rivals may also be doing the same • If incomes are rising it may reduce the impact of PED <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> • depends on size of price increase • depends on how many of their products have elastic ped compared to inelastic • depends on other factors, state of the economy, rivals reactions 	(6)

Question Number	Define the term 'private sector'.	Mark
1(c)(i)	Enterprises owned (1) and operated/controlled by private individuals (1)	(2)

Question Number	Give one advantage and one disadvantage to Cadbury of the division of labour.	Mark
1(c)(ii)	1 mark for factor, 1 mark for development e.g. advantage tasks are performed more rapidly (1) this reduces the average cost of production/increases productivity (1) disadvantage can be more monotonous (1) workers lose motivation/productivity falls (1)	(4)
Question Number	Cadbury could have invested the £75 million in a new distribution centre in India, instead of installing new production lines at the Bournville factory. This is an example of	Mark
1(c)(iii)	B - an opportunity cost.	(1)
Question Number	Workers on the new production lines are members of the UNITE trade union. State two aims of a trade union.	Mark
1(c)(iv)	<ul style="list-style-type: none"> • to improve working conditions (1) • to secure higher wages (1) 	(2)

Question Number	Differences in pay can always be explained by the demand for, and supply of, labour. Do you agree with this statement? Explain your answer.	Mark
1(d)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Differences in pay can always be explained by the demand and supply of labour because:</p> <ul style="list-style-type: none"> • if supply is low, as with a skilled manager, wages will reflect this and be high • if supply is high because few skills or qualifications are needed then wages are low • demand for labour is a derived demand and if demand for the product falls so do wages <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Differences in pay can not always be explained by the demand and supply of labour because:</p> <ul style="list-style-type: none"> • labour markets are subject to interference which prevents the operation of D and S, e.g. the MWR • trade unions can secure above equilibrium wage rates • Some occupations are public sector which mean wages are set e.g. teachers, nurses <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion</p> <ul style="list-style-type: none"> • depends on the degree of interference in the labour market • depends on the employer, some may be more generous or provide other financial incentives 	(6)

Question Number	Using the data in Figure 2a, explain two reasons why Australia is considered to be a more developed economy than Burundi.	Mark
2(a)(i)	1 mark for each reason, 1 mark for data e.g. Australia has a much larger tertiary sector compared to Burundi (1) 70% compared to 42% (1) Burundi has a much larger primary sector than Australia (1) 41% compared to 12% (1)	(4)

Question Number	Give one example of an occupation in the secondary sector of an economy.	Mark
2(a)(ii)	Engineer/shipbuilder/factory worker (1)	(1)

Question Number	The best way for Burundi to increase productivity is to improve its human capital. Do you agree with this statement? Explain your answer.	Mark
<p>2(a)(iii)</p>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The best way for Burundi to increase productivity is to improve its human capital because:</p> <ul style="list-style-type: none"> • Burundi is a developing country and education is likely to be relatively poor • education and training improves skill levels • this is likely to improve productivity and lead to economic growth <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The best way for Burundi to increase productivity is to improve its capital stock because:</p> <ul style="list-style-type: none"> • manufacturing capacity is low • investment in new plant and machinery is likely to improve both output and productivity • this will be a quicker improvement than education which is long term <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> • depends on level of investment in human capital • a mixture of investment in both human capital and capital stock is probably best 	<p>(6)</p>

Question Number	Define the term 'external benefits'.	Mark
<p>2(b)(i)</p>	<p>Benefits that accrue to third party (1) outside/apart from the original economic transaction (1)</p>	<p>(2)</p>

Question Number	Identify and explain one external benefit resulting from an improved transport and communications infrastructure.	Mark
2(b)(ii)	E.g. better transport and communications enable businesses to operate more efficiently/speeds things up (1) this creates economic growth/creates jobs (1)	(2)

Question Number	Economies of scale are	Mark
2(c)(i)	D - a decrease in average costs caused by increasing the scale of production.	(1)

Question Number	Identify and explain two types of internal economies of scale that would be advantageous to large manufacturers such as General Motors or Toyota.	Mark
2(c)(ii)	1 mark for identifying, 1 mark for development e.g. purchasing economies of scale (1) means that they can negotiate lower prices for supplies such as car components (1) e.g. technical economies of scale (1) means that they can purchase specialised plant and machinery to improve productivity (1)	(4)

Question Number	Identify and explain two reasons why a government might want to regulate the amount of competition which exists in a market.	Mark
2 (d)(i)	1 mark for reason, 1 mark for development e.g. to prevent monopolies forming (1) which may raise prices and be of poorer quality (1) e.g. to increase competition (1) to increase innovation and choice for the consumers (1)	(4)

Question Number	Privatisation will always benefit the consumer. To what extent do you agree with this statement, explain your reasons.	Mark
2(d)(ii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Privatisation will always benefit the consumer because:</p> <ul style="list-style-type: none"> • private firms have to make a profit to survive • this means they have to produce the kind of products that consumers want • at the right price and quality <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Privatisation will not always benefit the consumer because:</p> <ul style="list-style-type: none"> • in order to cut costs private firms may reduce quality • private firms may form an oligopoly and/or a monopoly • this may raise prices <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> • depends on the degree to which government regulates the market • depends on amount of competition already in market 	(6)

Question Number	Using Figure 3a, describe what has happened to the inflation rate in New Zealand between 2014 and 2017.	Mark
3(a)(i)	The inflation rate declined and then rose (1) Up to 2 more marks for use of data to support argument	(3)

Question Number	Identify and explain the impact of inflation on wages and savings	Mark
3(a)(ii)	1 mark for impact, 1 mark for development e.g. wages may rise to keep pace with inflation (1) because real wages have fallen (1) e.g. real value of savings will fall (1) inflation means that each dollar buys fewer goods (1)	(4)

Question Number	New Zealand should use monetary policy to control inflation. Do you agree with this statement? Explain your reasons.	Mark
3(a)(iii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>New Zealand should use monetary policy to control inflation because:</p> <ul style="list-style-type: none"> • increasing interest rates reduces the levels of borrowing and investment • this reduces the level of AD • which reduces inflationary pressure <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>New Zealand should not use monetary policy to control inflation because</p> <ul style="list-style-type: none"> • If inflation is caused by cost-push pressure from outside the NZ economy, it will not work • The trade-off of reducing AD is rising unemployment • This may be a greater problem than a certain level of inflation <p>Allow use of other policy as a counter argument here e.g. Fiscal policy</p> <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> • depends on degree of inflation and the amount of increase in interest rates • depends on cause of inflation • best used in conjunction with other policies 	(6)

Question Number	Identify and explain one possible reason why the current account deficit has increased from 2015 to 2016.	Mark
3(b)(i)	1 mark for reason, 1 mark for development e.g. exports have fallen (1) if fewer exports are demanded then export revenues fall and the current account worsens (1)	(2)

Question Number	Match the items described in Table 3b with the options below. Place your answer A, B, C or D in Table 3b. Each letter may be used more than once.	Mark								
3(b)(ii)	<table border="1" data-bbox="427 779 1270 1128"> <thead> <tr> <th data-bbox="434 788 850 889">Items on New Zealand's Current Account</th> <th data-bbox="850 788 1264 889">Insert A, B, C or D</th> </tr> </thead> <tbody> <tr> <td data-bbox="434 889 850 967">American tourists visiting New Zealand</td> <td data-bbox="850 889 1264 967">A / Invisible Export</td> </tr> <tr> <td data-bbox="434 967 850 1046">Sales of New Zealand dairy products to China</td> <td data-bbox="850 967 1264 1046">C / Visible Export</td> </tr> <tr> <td data-bbox="434 1046 850 1124">Sales of Japanese cars to New Zealand</td> <td data-bbox="850 1046 1264 1124">D / Visible Import</td> </tr> </tbody> </table>	Items on New Zealand's Current Account	Insert A, B, C or D	American tourists visiting New Zealand	A / Invisible Export	Sales of New Zealand dairy products to China	C / Visible Export	Sales of Japanese cars to New Zealand	D / Visible Import	(3)
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American tourists visiting New Zealand	A / Invisible Export									
Sales of New Zealand dairy products to China	C / Visible Export									
Sales of Japanese cars to New Zealand	D / Visible Import									

Question Number	To what extent is a deficit on the current account of the balance of payments a problem for a country? Explain your answer.	Mark
3(b)(iii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>a deficit on the current account is a problem because</p> <ul style="list-style-type: none"> • it has to be financed • this has to be borrowed • it may be difficult/expensive to borrow funds <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>a deficit on the current account is not a problem because</p> <ul style="list-style-type: none"> • if deficit is financed from long term capital inflows then this can be beneficial for the economy • usually not a problem to find finance • may cause depreciation which reduces deficit <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> • It depends on the size of the current account deficit as a % of GDP • It depends on the country in question (easier for US than a smaller economy) 	(6)

Question Number	Assess the likely effectiveness of regulation in reducing pollution in Auckland.	Mark
<p>3(c)</p>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Regulation is the best way to protect the environment because:</p> <ul style="list-style-type: none"> • It has clear standards and penalties • It reduces pollution because of the threat of sanctions • Revenue from sanctions can fund further protection <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Regulation is not the best way to protect the environment because:</p> <ul style="list-style-type: none"> • Enforcing regulation can be difficult and expensive • Large firms may not be deterred by the penalties • Other methods such as education/taxation may be more effective <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> • depends on nature of regulations and the size of sanctions • depends on ability of the government to enforce and monitor 	<p>(6)</p>

Question Number	Globalisation is the	Mark
4(a)(i)	C - increasing integration and interdependence of national economies	(1)

Question Number	Briefly explain two ways Foreign Direct Investment (FDI) has encouraged globalisation.	Mark
4(a)(ii)	<p>1 mark for way, 1 mark for development. E.g.</p> <p>FDI creates output, some of which will be exported (1) increasing trade and globalisation (1)</p> <p>FDI creates new jobs and skills and introduces new ideas and products/services (1) which increases interdependence and communication between nations (1)</p>	(4)

Question Number	Identify and explain two disadvantages of globalisation.	Mark
4(a)(iii)	<p>1 mark for disadvantage, 2 marks for development. E.g.</p> <p>inequality (1) more developed nations tend to benefit more from globalisation than less developed ones (1) which leads to growing inequality of income/opportunity/development gap (1)</p> <p>environmental damage (1) depletion of unsustainable resources and environmental damage (1) e.g. climate change (1)</p>	(6)

Question Number	The World Trade Organisation (WTO) is the main reason for the growth of international trade. To what extent do you agree with this statement? Explain your reasons.	Mark
<p>4(b)(i)</p>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The WTO is the main reason for the growth of international trade because</p> <ul style="list-style-type: none"> • it encourages free trade which makes trade easier and so increases it • it resolves disputes and negotiates the removal of trade barriers • it helps less developed nations to join the WTO and gain access to overseas markets <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The WTO is not the main reason for the growth of international trade because</p> <ul style="list-style-type: none"> • other factors have been important such as the development of transport and communications such as the container/internet • trade blocs such as the EU, NAFTA and ASEAN also encourage the development of trade • The WTO has been criticised for not doing enough to encourage more trade <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> • Whilst not the main reason it is certainly an important one • Other factors are also important 	<p>(6)</p>

Question Number	Identify and explain two reasons why the USA might be worried that Chinese aluminium producers were being subsidised.	Mark
4(b)(ii)	<p>1 mark for reason, 1 mark for development. E.g.</p> <p>Competition and unemployment (1) with the subsidies, Chinese aluminium is likely to be cheaper and substituted for US aluminium, this may cause unemployment (1)</p> <p>Balance of payments (1) if US customers buy the cheaper Chinese aluminium this will increase imports and worsen the current account (1)</p>	(4)

Question Number	Complete Table 4a below to indicate how each change might affect the exchange rate of the US dollar.	Mark												
4(c)(i)	<table border="1" data-bbox="427 958 1270 1283"> <thead> <tr> <th data-bbox="427 958 874 994"></th> <th data-bbox="874 958 1062 994">Appreciate</th> <th data-bbox="1062 958 1270 994">Depreciate</th> </tr> </thead> <tbody> <tr> <td data-bbox="427 994 874 1068">The demand for imports increases in the USA</td> <td data-bbox="874 994 1062 1068"></td> <td data-bbox="1062 994 1270 1068">X</td> </tr> <tr> <td data-bbox="427 1068 874 1211">Currency speculators expect the value of the US dollar to fall and to continue to fall</td> <td data-bbox="874 1068 1062 1211"></td> <td data-bbox="1062 1068 1270 1211">X</td> </tr> <tr> <td data-bbox="427 1211 874 1283">Interest rates increase in the USA</td> <td data-bbox="874 1211 1062 1283">X</td> <td data-bbox="1062 1211 1270 1283"></td> </tr> </tbody> </table>		Appreciate	Depreciate	The demand for imports increases in the USA		X	Currency speculators expect the value of the US dollar to fall and to continue to fall		X	Interest rates increase in the USA	X		(3)
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Question Number	To what extent is increasing free trade good for an economy? Explain your answer.	Mark
<p>4(c)(ii)</p>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Increasing free trade is good for an economy because</p> <ul style="list-style-type: none"> • Reduces the cost of goods and services which increases demand • this should mean increased economic growth and increased employment • exports more likely to sell which improves output and improves current account <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Increasing free trade good is not always good for an economy because</p> <ul style="list-style-type: none"> • cheaper imports can threaten domestic firms • more imports can worsen the current account • increased trade/output can have negative impact on environment <p>Further guidance</p> <ul style="list-style-type: none"> • Maximum for 1 sided argument (3 marks) • Maximum for both sides (4 marks) <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> • depends on extent of free trade • depends on extent of regulation/protectionism 	<p>(6)</p>