



# GCSE Economics J320

Exemplar Material

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# 1. Unit A591 – How the Market Works

Strong response:

- (b) State two factors of production and explain why the cost of each might rise if competition is increased.

Factor 1 Labor.

Explanation if competition increases there will be a higher demand for workers and there is only a certain price the demand curve will shift to the right causing price to increase.

Factor 2 Land.

Explanation there will be a higher demand for land, but the availability of raw materials is fairly inelastic, and therefore price will increase. [4]

## Principal Examiner commentary

The answer on labour is correct, and includes good explanation. The response on land is not as strong, but good enough for the explanation mark.

**Good response:**

- (c) Explain **one** likely effect of a large increase in the price of new cars on the demand for petrol.

Petrol is a complementary good for cars so when the price of cars goes up the demand goes down, so the demand for petrol goes down. This is because if there is a price if there are less cars being bought there is less need for petrol. The ~~same~~ change in demand for petrol ~~the~~ will not change that much as all the <sup>[4]</sup> people with cars still need petrol. The decrease in demand would also most likely lead to a fall in price.

**Principal Examiner commentary**

The first sentence is where the candidate picks up the knowledge marks (complementary good and some application), but there is no analysis to develop the answer.

**Weak response:**

- (ii) State and explain **one** disadvantage to a firm such as FAS Ltd of operating in a competitive market.

Disadvantage Competition

Explanation In a competitive market there is high level of competition in the market which could lead to low market share.

[3]

**Principal Examiner commentary**

The candidate chooses a poor disadvantage to write about, as clearly competitive markets are competitive. In the explanation, however, the disadvantage 'low market share' is pointed out, so the mark is awarded at that point, although there is no application or analysis.

**Strong response:**

**Fig. 3 Costs and Revenue for Trung's Restaurant**

Trung's sells a mix of Chinese and Vietnamese food. Lan, the owner, deals with all the finances for the restaurant. She has identified the following costs and revenue for 2009.

	£
Total revenue	450 000
Total variable cost	220 000
Total fixed costs	150 000
Profit	?

Lan is worried that the opening of new Chinese and Indian restaurants in the local area will:

- greatly increase competition;
- lead to a fall in profits;
- lead to a rise in the cost of factors of production.

She is also concerned that another rise in the national minimum wage will greatly affect the restaurant's costs. To help the business, Lan wants to increase consumer demand and improve productivity.

(d)\* Discuss the extent to which a rise in the national minimum wage may affect the profits of Trung's Restaurant.

A rise in national minimum wage ~~will increase~~ would be a higher incentive for people to work and therefore the supply of workers will increase meaning that businesses would be able to hire more workers, making them more productive, thus increasing their profits. However, it would make it more expensive for businesses to employ staff and therefore making them more unwilling to do so, the profits of Trung's restaurant may decrease as a higher proportion of their profit has to go to the workers wages. The more qualified workers may demand a pay rise, and again decreasing the profits. There are other factors however that will affect Trung's restaurant's profits, such as advertising, and the quality of the food.

The national minimum wage has a large effect [8]

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Paper Total [60]

3(d) on the profits made by firms such as Things restaurant, although there will be a surplus in the supply of workers, making it easier for the company to employ the right staff and therefore improve productivity and increase profit. A higher wage would mean that to make a large profit, or to increase profit then Things restaurant would have to employ less staff. Therefore I concluded that raising minimum wage would affect Things restaurant to a great extent, even though there are other <sup>profits</sup> factors affecting profit such as productivity, and consumer demand.

**Principal Examiner commentary:**

The answer shows knowledge of the minimum wage and can apply and analyse this in relation to profits. It then indicates that the minimum wage is not the only factor and tries to address 'the extent to which'. Even if the answer could perhaps be improved, it is possible to achieve full marks if it fulfils the criteria of the levels and is as good as could be expected from a GCSE candidate in the time available.

**Good response:**

**Fig. 1 FAS Ltd**

FAS Ltd is a private company in the secondary sector of the economy. Chris has recently taken over the company from his father. He believes that it is important for the company to grow in size. Chris has identified the following economies of scale as being particularly important:

- availability of skilled workforce;
- infrastructure, e.g. road building;
- marketing;
- risk bearing.

FAS Ltd operates in a competitive market which gives rise to both advantages and disadvantages to the company.

(d)\* Chris believes that it is important for FAS Ltd to grow in size. Do you agree that the benefits of growth to FAS Ltd exceed the costs? Give reasons for your answer.

Growing in size means that the firm can benefit from economies of scale which will lower average costs.

The benefits of this are lower average costs but also, if as Chris thought, they concentrate on risk bearing then even if one area of the business fails then there is still something left of the company.

On the other hand if the firm grows too big then they could suffer from diseconomies of scale. This can be caused by the company not being able to control all its workers and also the workers could feel alienated. Both of these could reduce productivity and therefore increase av. cost and lower profit. [8]

In conclusion I think that the firm should grow but not too large as the positive points of growth are stronger than the negatives.

**Principal Examiner commentary:**

The candidate has some knowledge of both economies and diseconomies and can briefly develop these (application), but cannot take it further, and so remains in Level 2.

**Weak response:**

(d)\* Discuss the extent to which a rise in the national minimum wage may affect the profits of Trung's Restaurant.

~~If~~  
If Trung has to pay his workers more it will mean he will have to use extra money, this will have to come from his profit which would mean that his profit would go down.

[8]

**Principal Examiner commentary:**

A good example of the Level 2 descriptor: 'candidates are able to relate the minimum wage to profits, but development is very limited'. This response is basic, but shows some application.



## 2. Unit A592 – How the Economy Works

Strong response:

- (b) Explain, with an example of each, the difference between a direct tax and an indirect tax.

A direct tax is a tax that will be on income, something that is directly related to income. E.g. income tax.

Whereas an indirect tax is directly related to spending, a tax on VAT. It is ~~also~~ on nearly every good we buy.

[4]

### Principal Examiner commentary:

Full marks here, as both tax types are defined with a correct example of each. The last sentence is not required, but this candidate has written a lot less than others. This is an example where the standard number of lines given for the answer often persuades candidates to write superfluous material, but this candidate has written an accurate, succinct response.

**Good response:**

- (b) Explain, with an example of each, the difference between a direct tax and an indirect tax.

A direct tax is a tax on income. This is taken from your gross pay before you receive it. These taxes are progressive so the amount of income taken in tax rises as income rises. An indirect tax is a tax on spending. This is added on to goods and services you buy. It is a stealth tax and can be hard to detect. Most are regressive systems. This means that the percentage of income taken in tax falls as income rises. [4]

**Principal Examiner commentary**

Both taxes are defined correctly and concisely. However, the question asks for an example of each and these are missing. Instead, time has been wasted with progressive/regressive concepts.

**Weak response:**

- (b) Fig. 3 shows that the Bank Rate in February 2009 was 1% per year, but at this time there were many different rates of interest in the UK economy. For example, high street banks were paying 0.5% per year on some savings accounts, while some credit card companies were charging borrowers 18% per year.

Explain two reasons why there are different rates of interest at any one time.

Reason 1 ..... Government may be trying to reduce  
interest unemployment so may choose to <sup>increase</sup> ~~set~~ interest rates  
to give companies more money to hopefully encourage  
them to employ more people.

Reason 2 .....  
.....  
.....  
.....  
.....  
..... [4]

**Principal Examiner commentary:**  
This question is about why the Bank Rate may change. The answer provided does not address the question set.

## Strong response:

- (d) Other than changing interest rates, explain two policies which the UK government could use to achieve both economic growth and more employment. Discuss how effective each policy is likely to be.

Policy 1 The government could use fiscal policy and aim for a budget deficit by ~~spending~~ increasing government spending and reducing taxes. These measures would increase incomes for consumers which would lead to an increase in consumer expenditure. This creates extra demand, causing firms to increase their output to maximise profit - to do this they might hire more workers (increase employment) to produce the increased output. This increased output also signals <sup>increased</sup> economic growth. <sup>These new</sup> workers (with high incomes) then go on to spend their increased incomes leading to a multiplier effect with incomes, employment and output all rising. Fiscal policy may not be too effective as ~~the government~~ although the government knows there will be an increase in demand it does not know how the value of this increase <sup>is the value of change via the multiplier effect</sup>. It also depends on consumers' willingness to spend more simply because of their high disposable income <sup>this may change to save</sup>.

Policy 2 The government could also use supply side policies such as ~~reducing~~ reducing benefits in order to achieve <sup>economic</sup> growth and employment. It is argued that the system of ~~benefits~~ social protection is too generous and acts as a disincentive to work - therefore by ~~decreasing~~ reducing benefits it is assumed more people would become employed so as to uphold a better lifestyle. This would see an increase in employment (assuming jobs are available) and furthermore a larger workforce is able to produce more goods so therefore output would increase (economic growth). Supply side policies ~~may take a long time to come into effect~~ so may not be too effective. <sup>a policy to</sup> Also reducing benefits could face resistance from groups within society so the government may be reluctant to do this.

[8]

### Principal Examiner commentary:

Policy 1: fiscal policy budget deficit has been identified, knowledge is applied (taxes down, spending up), the effect is analysed (AD rises, multiplier effect), and evaluative comment is provided at the end.

Policy 2: specific S-side policy - cutting benefits has been identified, knowledge is applied (more incentive to find jobs), the knock-on effect is explained, and, in this case, two evaluative comments provided at the end.

**Good response:**

- (d) To what extent will lower rates of interest benefit the macro-economic objectives of the UK government? Give reasons for your answer.

The objectives of the government is high employment, price stability, economic growth and and so lowering the rate of interest would benefit some and not others. This is because lowering the interest rate would increase overall spending in the economy as saving is less rewarding and borrowing becomes more rewarding and so demand would rise, increasing employment and output and leading to economic growth and high employment (two of the governments objectives). However, with economic growth and the rising of aggregate demand in the economy, there will be high pressure on prices and inflation, meaning the government won't achieve there low inflation target of 2%.

Therefore as lowering interest rates helps the government achieve some but not all of its macro-economic objectives, it doesn't benefit them to the full extent but combined with other policies could become very beneficial

[8]

**Principal Examiner commentary:**

The macro-economic objectives are identified (Level 1), and the effect of low interest rates is correctly applied to these (Level 2), which is then explained/analysed (Level 3). In this case, the conclusion is not developed enough to reach Level 4. This top level could have been reached if the candidate had developed the point about 'other policies'. Alternatively, they could have explicitly discussed the conflict between inflation and the other two objectives.

**Weak response:**

- (d)\* Should the UK government use taxes and government spending to redistribute incomes? Give reasons for your answer.

Taxes are a compulsory payment to the government. It can be right for the UK government to use taxes and government spending to redistribute income because it helps reduce inequalities of income. Direct taxes can be used to take income from higher incomes and distribute it to lower income levels. Government spending can be used to help give lower incomes benefits to increase their household income.

It can also be wrong for the UK government to do this because some people may want to keep the pay differentials. In fact, otherwise people will lose the incentive to work if people get money without working.

In conclusion the government should not depend heavily on using taxes and government spending to ~~redistribute~~ <sup>redistribute</sup> income as people lose the incentive to work and could cause unemployment to rise. [8]

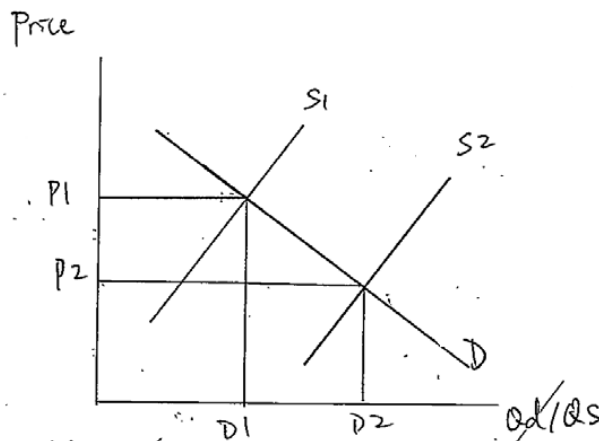
**Principal Examiner commentary:**

There is one argument for redistribution, which is reducing inequalities. There is also an argument against, i.e. people may lose the incentive to work. However, neither argument is developed beyond some application of knowledge, hence Level 2. The conclusion merely repeats earlier material.

# 3. Unit A593 – The UK Economy and Globalisation

Strong response:

- (c) With the aid of a demand and supply diagram, explain how a subsidy from the US government to US cotton growers would help make US cotton growers more competitive and undercut foreign competitors.



An increase in supply causing an expansion in demand.

When US cotton growers receive subsidy from the US government, the cotton growers might decide to buy in more advanced machinery to increase productivity. Therefore lowering the price and makes the product more appealing to consumers. An increase in supply causing an expansion in demand. Subsidy reduces production cost.

On the other hand, a fall in price makes the product more competitive against foreign products as foreigners can <sup>buy the US</sup> ~~use the~~ cotton export more cheaply. This helps US cotton to undercut foreign competitors if they do not receive subsidy from their own government. This means that if they lower the price to be more competitive, the cut in price will reflect directly on their profit and face great loss. The situation <sup>above</sup> of foreign competitors is unlikely to be achieved, therefore the US cotton growers can stay competitive.

### Principal Examiner commentary:

A very well drawn diagram, fully labelled and correctly showing the supply curve shifting to the right. The first paragraph identifies 'lowering the price' and 'increase in supply', and in the second paragraph it is effectively explained how this will mean the goods are cheaper.

### Strong response:

- (d) Should the UK continue to be a member of the EU? Give reasons for your answer.

The EU has brought a number of benefits to the UK. The single market in the EU where member states can trade freely with each other means that there is a greater movement of labour between countries. This free movement of labour means that the UK has access to a greater range of skilled workers which can improve UK productivity. Also, the single market means that there is greater competition for UK firms, which in turn means that to remain competitive firms decrease prices, meaning that there is less inflation in the UK Economy. Another benefit to the UK of increased competition, is that consumers have access to a greater range of goods and services that are cheaper and of higher quality due to the competition between firms. However the Single Market of the EU does have detrimental effects for the UK. With ~~more~~ more free movement of labour and capital, ~~for~~ many UK manufacturing firms relocate to countries where labour is cheaper so to reduce costs, this causes job losses in the UK as well as loss of manufacturing industries. The single market also gives rise to more MNC's, which drive out smaller local firms in the UK who cannot compete. Overall, the [8] EU is very beneficial economic system for the UK and ~~we~~ we should continue to be a member despite the few disadvantages.

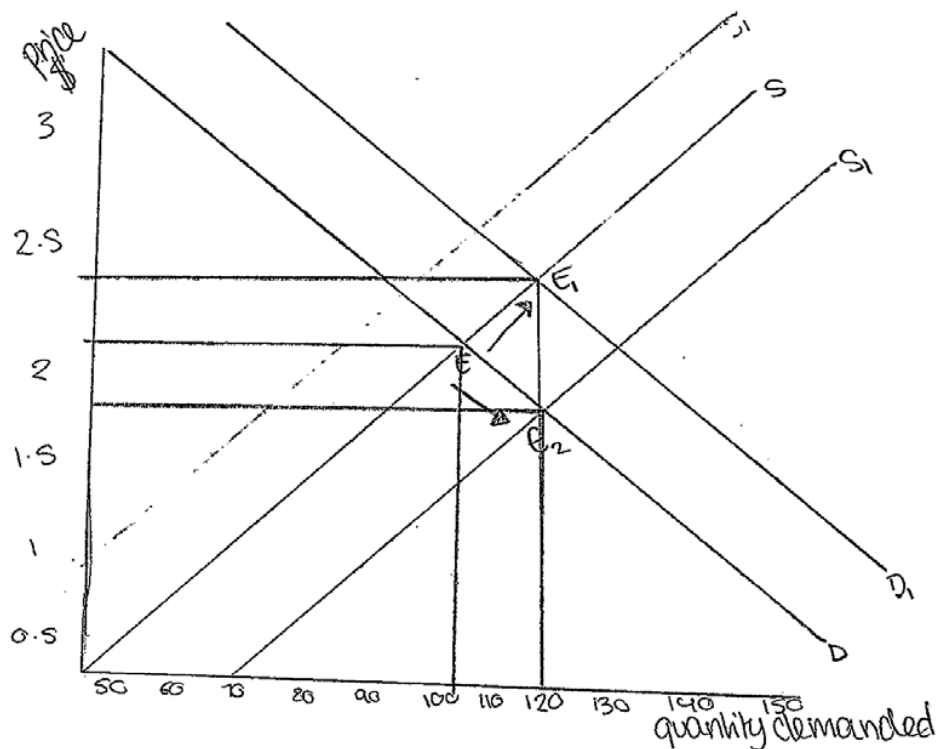
#### Principal Examiner commentary:

The demonstrates knowledge of a benefit of the EU in the second sentence (Level 1). The sentence starting 'also, the single.....' is where the response progresses into Level 2, which is then developed by the end of the sentence (Level 3) as they have explained the idea. Level 4 is reached later in the answer when a reason on the other side is also explained.



**Good response:**

- (c) With the aid of a demand and supply diagram, explain how a subsidy from the US government to US cotton growers would help make US cotton growers more competitive and undercut foreign competitors.



With the help of the subsidy, the cotton growers could afford to produce more, and therefore supply more. As supply increased, the price decreased, causing the demand to increase, because prices has decreased, the cotton growers became more competitive, this meant that foreign competitors found it harder to compete. This benefitted both the supplier and the consumer as the supplier increased its profits and the US increased its balance of payments, the consumer benefitted as they got cotton at a cheaper more competitive price. [8]

**Principal Examiner commentary:**

This diagram has the correct axis labels and shows supply shifting right. However, the candidate has lost out as labelling for the original equilibrium is not clear. For the explanation, the candidate gives 'supply increase' and 'price decrease', and is also correct in stating that foreign competitors would 'find it harder to compete'. This offers a brief idea of how they would be more competitive.

**Strong response:**

- 7 Using the information in the case study and your own knowledge of economics, discuss to what extent the growth of China and India will benefit the UK economy through international trade.

UK consumer choice widened as trade with India increases (fig 6)

The growth of China and India will mean benefits and costs for the UK economy through international trade. (Globalisation)

China and India will be able to provide new and cheaper goods and services at a wider range to the UK. This will lead to higher living standards and better relations between the three countries. However

cheap imports will cause small domestic firms to go bust due to the lack of being able to compete with low prices (fig 6).

However this relies also on the elasticity of the imports.

As China and India trade with the UK more workers or firms will go to them for cheap labour costs causing unemployment in the UK. But importing firms will be able to provide jobs as they import more balancing out the employment loss.

The revenue and trade from India and China will aid the UK in growing economically which will mean again better living standards, more employment and more innovation.

However changes in the exchange rate (fig 5) could cause patterns of importing and

patterns of  
trade  
(pg 152)

exporting<sup>1</sup> to change, we may import more and export less due to cheaper prices.

This may cause a balance of payments deficit which would harm the economy.

By moving production abroad, goods can be sold cheaper reducing the chance of inflation occurring.

The growth of India and China could allow the three countries (UK) to trade with each other in surplus (continued pg 17) [12]

Some say that excess trading causes a countries culture to be lost due to so much foreign goods and services.

(Question 7)

This would mean more efficient work and less wasted. However not only could a domino effect take place if one country ~~and~~ falls but workers could be replaced by machinery and goods and services quality could lack.

Greater international trade and globalisation would mean more negative externalities such as pollution contributing to global warming. However as there is no other way to transport goods other than by ship or plane some could say this cannot be ~~avoided~~ avoided.

Overall I feel that the growth of India and China through international trade will benefit the UK economy more than harm.

~~Maybe~~ Maybe by using protectionist measures ~~some trade can~~ some trade can be controlled eg tariffs on some goods to prevent firms going bust. I feel that trading will help the UK economy more than harm.

**Principal Examiner commentary:**

This is a very strong answer where the candidate analyses several points on each side of the argument. Excellent use is made of economic concepts, for example 'negative externalities', and there good use of connectives. 'This would mean' is used well to lead into analysis of a point.

## Good response:

- 7 Using the information in the case study and your own knowledge of economics, discuss to what extent the growth of China and India will benefit the UK economy through international trade.

Using the statistics from 2008, UK only imports 16% of the value of all goods imported from Asia, where both India and China are from. This is for a number of reasons. Firstly, the UK is part of the EU which means that between member countries there is free trade. This means that goods from ~~Europe~~ countries in the EU are a lot cheaper than most other countries. Free trade means there aren't tariffs and quotas between countries which keeps goods cheap. The transport costs are also very low for moving goods and services between the EU, this is in contrast to slightly higher prices when transporting goods from Asia which is significantly further away. This has changed with the progression of technology. For example now because of containerisation goods can be transported cheaply. This may change however with the increase of oil prices, as transport costs increase the UK will look to trade more in the EU because goods from elsewhere are a lot more expensive. Consumer choice will increase with the increase of international trade with China and India. This will be good for consumers. However UK business may suffer as they can't compete with the prices or service provided. This would be a disadvantage to the UK economy. As trade increases unemployment in the UK will also increase because goods are being bought from other countries so firms out source. As these two countries grow firms will emerge from these countries which should promote innovation in that gives industry. The growth of both China and India will mean that there is a larger market for UK business to sell to. As the people in these countries get richer and more powerful there would be more growth, this would be

...very good for the UK economy and business' because there will be a  
...larger market for them to sell to. Because there are more firms  
...in the market it should lead UK companies to become better and  
...hopefully grow into MNC'S which will help the UK economy and  
...help to balance the payments deficit. There are both advantages  
...and disadvantages to the growth of China and India. I think  
...that the growth will really help the UK economy and business  
...in the UK because of an increase in international trade with them.  
.....  
..... [12]

**Principal Examiner commentary:**

This candidate has been awarded Level 3. They have stated and explained several points, however they have only been on one side of the argument. The first sentence achieves Level 2 as there is application from the case study. The first point is then made and explained, therefore reaching Level 3. The use of 'this means' shows the candidate is developing their idea, thus analysing. On the second page a further point is made and explained, and so reaches the higher end of Level 3.

**Weak response:**

- 7 Using the information in the case study and your own knowledge of economics, discuss to what extent the growth of China and India will benefit the UK economy through international trade.

High growth in India and China will benefit the UK economy to a large extent.

Firstly, high growth will increase our competitiveness with these countries, and will keep prices low for UK consumers. Secondly, UK businesses may move factories out there to benefit from economies of scale. Thirdly, increases in growth may cause India and China to import more goods from the UK.

However, increases in competitiveness and growth may cause negative externalities in the UK. Also, cheap labour in China and India may replace UK workers in factories and cause increased unemployment. Lastly, cheap goods produced in India and China may result in dumping in the UK economy, to drive out British competitors, and cause greater unemployment.

In conclusion, I believe that ~~of~~ the benefits to the UK due to growth in India and China outweigh the costs

**Principal Examiner commentary:**

This candidate primarily uses their own knowledge and applies it to the question. There is no explanation of the identified ideas, and therefore the response can not move out of Level 2. The response consists largely of statements being made, with no development.