

Mark Scheme (Results) January 2011

GCE O Level

GCE O Level Economics (7120/01) Paper 01

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Question	Answer	Mark
Number		
1(a)(i)	Public limited company	(1)
		•

Question Number	Answer	Mark
1(a)(ii)	1 mark for example. Accept names of multinationals as well as other likely companies.	(1)

Question Number	Answer	Mark
1(b)	Each type of finance identified, 1 mark. E.g. bank loans, debentures.	(2)

Question Number	Answer	Mark
1(c)	Accept to make a profit/increase market share.	(1)

Question Number	Answer	Mark	
2(a)(i)	Population falling (1 mark) as BR <dr dr="" or="">BR (1 mark) Also accept more people dying than being born (1 mark) Reason must explain falling population, if it doesn't then no marks. Do not accept reasons for changes in BR and DR.</dr>		(2)

Question Number	Answer	Mark
2(a)(ii)	Population rising (1 mark) as BR> DR or DR <br(1 mark) Also accept more people being born than dying (1 mark) Reason must explain increasing population, if it doesn't then no marks. Do not accept reasons for changes in BR or DR</br(1 	(2)

Question Number	Answer	Mark
2(b)(i)	Problem identified 1 mark e.g. Lack of workers/increase in wages/low economic growth/high dependency ratio/ high government expenditure on pensions or health. Do not accept high government expenditure on its own - must be related to specific item(s) of expenditure. Also accept country will be underpopulated	(1)

Question Number	Answer	Mark
2(b)(ii)	Problem identified 1 mark e.g. high dependency ratio/high government expenditure on	

education/scarce resources.	
Do not accept high government expenditure on its	
own - must be related to specific item(s) of	
expenditure.	
Also accept country will be overpopulated	(1)

Question	Answer	Mark
Number		
2(b)(iii)	Accept either factor to increase population or factor to overcome specific problem identified, 1 mark, development, 1 mark. E.g. encourage families to have more children by giving financial incentives/improve health care by building more hospitals so that DR falls. E.g. increase immigrant workers by making work	(2)
	permits easier to increase workforce.	(2)

Question Number	Answer	Mark
2(c)	Factor identified, 1 mark. E.g. immigration,	(1)
		(1)

Question Number	Answer	Mark
3(a)(i)	Bananas/banana crop/banana grower/banana farming Farming on its own is not good enough but do accept "banana crop - farming" i.e. important word is "banana(s)".	(1)

Question	Answer	Mark
Number		
3(a)(ii)	Soap/soap production/soap production manufacturing/soap manufacture(r)/production	
	of soap	(1)

Question	Answer	Mark
Number		
3(a)(iii)	Tourism/tourism-service/tourist guide/	(1)

Question Number	Answer	Mark
3(b)	Each problem identified, 1 mark. Explanation, 1 mark. 2 + 2 marks E.g. balance of payments problems (1 mark) as exports destroyed (1 mark). Low incomes (1 mark) as no bananas to sell. Less food as no bananas to eat so may have to import more.	(4)

Question	Answer	Mark
Number		
4(a)(i)	-1.5 (1 mark) Don't need -ve sign	
	Don't penalise % sign i.e. 1.5%	(2)

	15%/10% 1 mark. Don't need % or -ve sign.	
Question	Answer	Mark
Number		
4(-)(::)	alaatia	(1)

4(a)(II)	elastic		(1)
Question	Answer	Mark	
Number			
4(b)(i)	2.5 (1 mark) Don't penalise % sign i.e. 2.5%		
	25%/10% (1 mark)		(2)
			-

Question	Answer	Mark
Number		
4(b)(ii)	Tea and coffee are substitutes (1 mark). Cross	
	elasticity of demand is positive (1 mark)	(2)

Question Number	Answer	Mark
5(a)(i)	Percentage/general increase in prices (1 mark) over a period of time (1 mark). No mark for "increase in prices" on its own but accept increase in prices over a period of time for 1 mark. Do not credit "over a period of time" on its own. 1 mark for a fall in the value of money. Accept "sustained" persistent" as referring to time period for 1 mark.	(2)

Question Number	Answer	Mark
5(a)(ii)	Percentage return/reward (1 mark) on saving (1 mark)	
	Cost (1 mark) of borrowing (1 mark)	(2)

Question	Answer	Mark
Number		
5(a)(iii)	January and/or February 2008. Also accept	(1)
	January 2008 to February 2008.	

Question Number	Answer	Mark
5(a)(iv)	July and/or September 2008.	(1)

Question Number	Answer	Mark
5(b)	They will suffer (1 mark) because their incomes don't rise as inflation rises/can't buy as much/standard of living falls (1 mark)	
	Real incomes (1 mark) fall (1 mark).	(2)

Question	Answer	Mark
Number		

5(c)	Each aspect of reduction in consumer demand	
	identified, 1 mark (max 2). Development up to 2	
	marks.	
	Increase leads to a higher return on savings so	
	consumers might save more/demand less.	
	Increase leads to less borrowing as loans more	(4)
	expensive so less demand.	

SECTION B

Question	Answer	Mark
Number		
6(a)(i)	A period of negative economic growth. (2 marks)	
	Also accept GDP falling for 2 marks.	(2)

Question Number	Answer	Mark
6 (a)(ii)	Each feature identified 1 mark, development 1 mark. E.g. Unemployment due to falling demand, falling investment due to falling expectations, fall in income leading to fall in standard of living.	(4)

Question	Answer	Mark
Number		
6(b)(i)	Each effect identified, 1 mark. Explanation up to 2 marks. e.g. increase consumers' demand (1 mark) because price of goods/services will fall (1 mark). Increase demand (1 mark) and so there will be a fall in unemployment as firms take on more workers (1 mark). Also accept reference to VAT reduction having	
	little effect on recession.	
	Credit diagram for change in indirect tax up to 3	
	marks.	(6)

Question Number	Answer	Mark
6(b)(ii)	Each fiscal measure identified, 1 mark (up to 3). Can be general fiscal measures e.g. reduce direct taxes, increase government expenditure or specific measures e.g. reduce income tax allowances/increase pensions. Development and explanation up to 3 marks. E.g. increasing income tax allowance (1 mark) will mean workers will pay less income tax (1 mark) this increases disposable income of workers (1 mark) so that demand will increases (1 mark)	
	2 x 4 marks.	(8)

Question Number	Answer	Mark
7(a)(i)	Each reason identified, 1 mark, explanation, 1 mark.	

e.g. reduce risks - if demand for food and	
household goods falls or remains constant by	
diversifying the supermarket can take advantage	
of services which might be increasing in demand.	
2+2 marks	
Increase profits because one store shopping	(4)
people might buy financial services from	
supermarkets.	
Increase sales = 1 mark	
•	

Question	Answer	Mark
Number		
7(a)(ii)	Each reason identified, 1 mark, explanation, 1 mark. 2+2 marks Supermarket may not have expertise in financial services and it may fail and lose money. May spend too much on new enterprise and existing sales may fall as these are ignored by supermarket.	
	Also accept may experience diseconomies of scale as the firm grows too big and bureaucracy	(4)
	develops.	

Question	Answer	Mark
Number		
7(b)(i)	Each factor identified, 1 mark development, 1	
	mark.	
	E.g. proximity to highly populated area e.g. town	
	so that there is high demand.	
	Good transport facilities so that consumers can	
	easily get to supermarket.	
	Cheap rent - supermarkets are large and need a	
	lot of land.	(6)
	3 x 2 marks	

Question	Answer	Mark
Number		
7(b)(ii)	Each reason identified, 1 mark (up to 3),	
	development up to 2 marks.	
	e.g. personal service (1 mark) the friendly	
	atmosphere (1 mark) may make shopping a	
	pleasure (1 mark).	
	Other reasons: local to consumers "corner shop".	
	Longer opening hours, limited local demand.	
	Also accept: government gives grants etc so that	
	employment will increase or the shops may grow	
	into larger businesses.	
	2 x 3 marks or 3 x 2 marks. List max 3 marks.	(6)



Question Number	Answer	Mark
8(a)(ii)	Price P P1 Q1 Q Quantity	
	1 mark for axes and original demand and supply	
	1 mark for shift to left of demand	
	1 mark for new price and quantity	(3)

Question Number	Answer	Mark
8(b)(i)	Balance of payments will worsen (2 marks) (1 mark only if state "balance of payments will be in deficit") This is because exports (1 mark) will fall (1 mark)	(4)

Question Number	Answer	Mark
8(b)(ii)	Value of the Japanese Yen will fall (depreciate) (1 mark). This occurs because the demand for the Yen has fallen (1 mark), because fewer Japanese goods are being bought (1 mark)	(3)

Question Number	Answer	Mark
8(c)	Each effect 1 mark (max 3)e.g. reduce costs of computers, retaliation, look for new markets, currency manipulation, subsidies. e.g. the Japanese government might decide to retaliate (1 mark) and impose higher duties on goods from the EU (1 mark). This might lead the EU to reduce the tariffs on Japanese computers (1 mark).	
	2 x 3 marks or 3 x 2 marks List maximum 3 marks.	(6)

Question Number	Answer	Mark
9(a)(i)	Firms pay worker	Households provide
•	Provide household s with goods and Firms	labour Households buy goods and
	1 mark for households and firms correctly labelled 1 mark for flow of labour and wages 1 mark for flow of goods and services and demand from households. Leakages/injections, 1 mark	
	Max 4 marks for diagram Max 4 marks without diagram.	(6)

Question Number	Answer	Mark
9(a)(ii)	Savings: income not spent/leakage from circular flow of income - 2 marks Also accept numerical example for 1 mark.	
	Investment: purchase of capital equipment/injection (1 mark) accept an example e.g. machinery instead of capital by firms (1 mark) Need reference to business or firms for 1	(4)



mark 2+2 marks			mark 2+2 marks		
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Question	Answer	Mark
Number		
9(b)(i)	Each reason identified, 1 mark e.g. increase	
	economic growth, decrease unemployment,	
	increase output, increase standard of living.	

Question Number	Answer	Mark
9(b)(ii)	Each method identified, 1 mark e.g. reduce rate of interest, tax relief on investment spending.	

Question Number	Answer	Mark
9(b)(iii)	Explanation of how each method will increase investment, 1 mark each. Explanation of why one would be more successful than the other up to 4 marks. May also gain up to 4 marks for explanation of why the other would not be successful. e.g. fall in rate of interest will make loans cheaper (1 mark) so firms can borrow to invest in new machinery etc (1 mark). If the economy is not stable, perhaps there is high inflation (1 mark) then firms may be worried about future demand for their products (1 mark) and so will not want to borrow money and invest. (1 mark)	(6)

Question Number	Answer	Mark
10(a)	The total of a country's output (1 mark) over a period of time, usually a year. (1 mark) divided by the population (1 mark). Also accept average output per person.	(3)

Question Number	Answer	Mark
10(b)(i)	The amount of goods and services consumed by individuals (1 mark) with their incomes (1 mark) over a period of time (1 mark). Also accept Human Development Index measurement not only the goods and services produced but also the ability of a population to use these and the time they have to enjoy them. Credit reference to health and education. 1 mark for "quality of life" Need time for full marks	(3)

Question Number	Answer	Mark
10(b)(ii)	Each method identified, 1 mark e.g. increase	

benefits for poor/unemployed, provide free	
education and health.	
Development, 2 marks. Free health service will	
improve the standard of living (1 mark), people	
will be fit to work (1 mark) and earn money (1	(6)
mark).	

Question	Answer	Mark
Number 10(b)(iii)	Each reason given to support decision, 1 mark (max 3 marks). The distribution of income might be different, externalities, pattern of government expenditure, amount of transactions not accounted for in GDP. Development up to 3 marks. 1 mark for GDP per head is higher in Saudi Arabia. E.g. In Saudi Arabia the wealth may in the hands	
	of a few people (1 mark) so only many people will have less than \$20,700 (1 mark) whereas in Brazil it may be spread more evenly (1 mark). The government in Brazil may spend more on health and education (1 mark) whereas in Saudi they may spend it on weapons (1 mark) which do not improve people's standard of living (1 mark)	(8)

Question Number	Answer	Mark
11(a)	The process is divided into small tasks (1 mark). Each worker performs one task (1 mark)	(2)

Question Number	Answer	Mark
11(b)(i)	Each advantage identified, 1 mark e.g. saves time, increases productivity, increase the use of machinery. Development, 1 mark e.g. time will be saved as workers don't have to move from place to place to do different jobs.	(6)

Question Number	Answer	Mark
11(b)(ii)	As the tasks are broken down so machines can be built to do simple tasks Also accept 1 machine can do the work of many workers so workers no longer needed for 2 marks Machines replace workers = 1 mark	(2)

Question	Answer	Mark
number		
11(c)(i)	Each supply side policy identified, e.g. improving mobility either - occupational or geographical 1 mark, development up to 2 marks.	

e.g. the workers can be retrained (1 mark) so	
that they can find work in other industries (1	
mark). Job centres can be made available to	
inform them of other jobs (1 mark)	(6)

Question Number	Answer	Mark
11(c)(ii)	Each reason identified, 1 mark (max 2). Development up to 3 marks. E.g. If there are no other jobs available then there will still be unemployment. Training takes time so in the short run there may still be unemployment.	(4)

Question Number	Answer	Mark
12(a)(i)	Investment (1 mark) by foreign firms in a country (1 mark) e.g. Ford setting up a factory in China (1 mark).	(3)

Question	Answer	Mark
Number		
12(a)(ii)	The amount owed by a country (1 mark) to	
	foreign banks/countries (1 mark) e.g. Botswana	
	borrowing from China (1 mark).	(3)

Question	Answer	Mark
Number		
12(b)(i)	Each reason identified, 1 mark. E.g. increases employment, introduces new technology. Development, 1 mark. E.g. employment might be increased if the foreign firm needs workers in its	
	factory.	(4)

Question Number	Answer	Mark
12(b)(ii)	Each method identified, 1 mark. E.g. tax holidays, cheap land, improve infrastructure, more training. Development, 1 mark. E.g. tax holidays mean that the foreign firm will pay less tax. Cheap land will reduce its costs, increasing profits.	(4)

Question Number	Answer	Mark
12(c)	One-sided arguments maximum 4 marks.	
	Each argument identified,1 mark. Development	



up to 2 marks.	
E.g. debt must be paid back with interest (1	
mark). This may mean that the debt grows (1	
mark) and the country sink further into debt (1	
mark).	
If the loans are used to develop the country (1	
mark) then the country will be able to earn	
money from exports (1 mark), achieve economic	(6)
growth and pay its debts (1 mark)	



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