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## **Mark Scheme (Results)**

**Summer 2018**

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

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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 P1 is most likely to have been caused by	Mark
1(a)(i)	<b>D</b> - an increase in productivity.	<b>(1)</b>

Question Number	Explain the reason for your answer to a (i).	Mark
1(a)(ii)	An increase in productivity means that more is produced from the same amount of resources/more efficient use of resources <b>(1)</b> average cost is reduced <b>(1)</b>	<b>(2)</b>

Question Number	What is meant by 'price elasticity of supply'?	Mark
1(b)(i)	The responsiveness of quantity supplied <b>(1)</b> to a change in price <b>(1)</b>  OR  Accept correct formula: $\frac{\% \text{ change in QS}}{\% \text{ change in price}}$ <b>(2)</b>  Vague definition <b>(1)</b>	<b>(2)</b>

Question Number	Identify and explain <b>two</b> possible reasons why the UK price elasticity of supply of ice cream is elastic.	Mark
1(b)(ii)	1 mark for reason, 1 mark for development e.g.  does not take long to make <b>(1)</b> therefore easy to respond to increases in demand <b>(1)</b>  can be stored <b>(1)</b> supply can be held until needed and quickly released <b>(1)</b>	<b>(4)</b>

Question Number	Explain why the supply of milk might be price inelastic.	Mark
1(b)(iii)	1 reason (1) with developed point(2)  OR  2 reasons (2) with developed point (1)  e.g. Milk is produced from cows which take time to breed and grow <b>(1)</b> this means it is difficult to suddenly increase the supply of milk <b>(1)</b> therefore an increase in	<b>(3)</b>

	the price of milk takes time to increase supply and is price inelastic <b>(1)</b>	
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<b>Question Number</b>	Identify and explain <b>two</b> factors that might affect the demand for Beechdean's ice cream.	<b>Mark</b>
<b>1(b)(iv)</b>	<p>1 mark for factor, 1 mark for development e.g.</p> <p>advertising <b>(1)</b> if Beachdean increase advertising, more people will be aware of the product and demand will increase <b>(1)</b></p> <p>seasonal variations <b>(1)</b> if the weather is warm more people will buy ice cream, increasing demand <b>(1)</b></p>	<b>(4)</b>

Question Number	How might an increase in the minimum wage affect Beechdean?	Mark
1(c)(i)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The negative impacts for Beachdean may be:</p> <ul style="list-style-type: none"> <li>• Paying the minimum wage will increase the costs of employment for Beachdean</li> <li>• It may have to increase price to compensate and lose sales, and may even close down</li> <li>• May have to reduce its workforce</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The positive impacts for Beachdean may be:</p> <ul style="list-style-type: none"> <li>• Its employees may be more motivated and increase productivity</li> <li>• Staff turnover may reduce</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> <li>• depends on size of minimum wage increase</li> <li>• depends on whether businesses can increase productivity</li> <li>• if they are already paying above the minimum wage, it will have no impact</li> <li>• it depends on the firm's ability to absorb the increase in costs and/or ability to charge higher prices</li> </ul>	<b>(6)</b>

Question Number	Beechdean's demand for labour is a derived demand. Explain the term 'derived demand'.	Mark
1(c)(ii)	Demand for one good/ice cream <b>(1)</b> has a direct effect on the demand for another good/labour <b>(1)</b>	<b>(2)</b>

<b>Question Number</b>	Specialisation benefits Beechdean. Do you agree with this statement? Explain your answer.	<b>Mark</b>
<b>1(c)(iii)</b>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Specialisation is good for Beachdean because:</p> <ul style="list-style-type: none"> <li>• Production speeds up as workers become more efficient</li> <li>• This reduces average costs</li> <li>• Giving the firm a possible competitive advantage with regards to price</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Specialisation is not good for Beachdean because:</p> <ul style="list-style-type: none"> <li>• The job becomes monotonous and workers lose motivation</li> <li>• Staff turnover may rise, increasing the costs of recruitment and training</li> <li>• If workers become too specialised absences become harder to cover</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion</p> <ul style="list-style-type: none"> <li>• depends on the degree of the specialisation</li> <li>• negative impacts may be avoided by job rotation</li> </ul>	<b>(6)</b>



<b>Question Number</b>	<b>Insert the terms <b>Primary, Secondary</b> and <b>Tertiary</b> in Table 2a below to match the three sectors shown in Figure 2a.</b>	<b>Mark</b>						
<b>2(a)(i)</b>	<table border="1"> <tr> <td><b>Services</b></td> <td>Tertiary</td> </tr> <tr> <td><b>Industry</b></td> <td>Secondary</td> </tr> <tr> <td><b>Agriculture</b></td> <td>Primary</td> </tr> </table>	<b>Services</b>	Tertiary	<b>Industry</b>	Secondary	<b>Agriculture</b>	Primary	<b>(3)</b>
<b>Services</b>	Tertiary							
<b>Industry</b>	Secondary							
<b>Agriculture</b>	Primary							

<b>Question Number</b>	<b>Give <b>one</b> example of a business operating in the service sector.</b>	<b>Mark</b>
<b>2(a)(ii)</b>	e.g. Banking/insurance/retail/tourism	<b>(1)</b>

<b>Question Number</b>	<b>Identify and explain <b>one</b> way the GDP by sector of a developing economy might differ from a developed economy.</b>	<b>Mark</b>
<b>2(a)(iii)</b>	<p>1 mark for way, 1 mark for development</p> <p>E.g. Primary sector larger <b>(1)</b> developing economies still rely to a great extent on agriculture and commodities <b>(1)</b></p>	<b>(2)</b>

<b>Question Number</b>	<b>Give <b>one</b> example of a fixed cost and <b>one</b> example of a variable cost that Jean might have to pay.</b>	<b>Mark</b>
<b>2(b)(i)</b>	<p>Fixed cost <b>(1)</b> business rates/loan repayments/rent/mortgage/furniture</p> <p>Variable cost <b>(1)</b> electricity/laundry/food for guests/soap/coffee</p>	<b>(2)</b>

Question Number	<p>Jean charges \$150 dollars per room per night. She estimates that the variable costs are \$60 per room per night and the fixed costs \$1,800 per week.</p> <p>Calculate her weekly profit if six rooms are rented out for four nights a week.</p>	Mark
<b>2(b)(ii)</b>	<p>Profit = Total revenue - Total costs <b>(1)</b></p> <p>Total revenue = (4 x 6) x \$150 = \$3,600 <b>(1)</b></p> <p>Total costs = (\$60 x 4 x 6) + \$1,800 = \$3,240 <b>(1)</b></p> <p>Profit = \$3,600 - \$3,240 = \$360 <b>(1)</b></p> <p>NB: If answer of \$360, award all 4 marks If answer of 360, award 3 marks</p>	<b>(4)</b>

<b>Question Number</b>	Competition is always good for the consumer. To what extent do you agree with this statement? Explain your answer.	<b>Mark</b>
<b>2(b)(iii)</b>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Competition is always good for the consumer because:</p> <ul style="list-style-type: none"> <li>• Competition can mean lower prices as businesses compete to attract custom</li> <li>• Competition can mean innovation and greater choice</li> <li>• It can lead to better quality and service</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Competition is not always good for the consumer because:</p> <ul style="list-style-type: none"> <li>• Cutting prices may mean cutting costs and loss of quality</li> <li>• Competition can reduce profitability and hold back innovation</li> <li>• Customer service may be sacrificed in order to drive down costs</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> <li>• depends on the degree of competition</li> <li>• depends on the effectiveness of consumer protection legislation</li> </ul>	<b>(6)</b>

Question Number	Identify and explain <b>two</b> types of internal economies of scale that might benefit the Grand Hotel.	Mark
<b>2(b)(iv)</b>	<p>1 mark for reason, 1 mark for development</p> <p>e.g. purchasing economies of scale/bulk buying <b>(1)</b> means that they can negotiate lower prices for supplies such as laundry <b>(1)</b></p> <p>e.g. marketing economies of scale <b>(1)</b> means that they can advertise in a wider range of media because the costs are spread over a greater number of rooms <b>(1)</b></p> <p>e.g. division of labour <b>(1)</b> large firm can employ division of labour so hotel workers become more efficient in one part of the service offered <b>(1)</b></p>	<b>(4)</b>
Question Number	Define 'diseconomies of scale'.	Mark
<b>2(b)(v)</b>	An increase in average costs <b>(1)</b> brought about by becoming too big <b>(1)</b>	<b>(2)</b>

<b>Question Number</b>	Evaluate the extent to which a small business such as Jean's hotel can compete effectively with much larger businesses such as the Grand Hotel.	<b>Mark</b>
<b>2(b)(vi)</b>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>A small business such as Jean's can compete effectively with much larger businesses such as the Grand Hotel because:</p> <ul style="list-style-type: none"> <li>• Small businesses can offer a personal service</li> <li>• They may cater for a niche part of the market</li> <li>• Some customers will pay a premium price for niche services</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>A small business such as Jean's cannot compete effectively with much larger businesses such as the Grand Hotel because:</p> <ul style="list-style-type: none"> <li>• Small businesses cannot exploit economies of scale</li> <li>• Costs may be higher and profitability lower</li> <li>• Larger businesses can create barriers to entry and even force smaller businesses out by tactics such as predatory pricing</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> <li>• depends on the degree to which a small business can differentiate its product/service</li> <li>• depends on other factors such as the economic climate</li> </ul>	<b>(6)</b>

<b>Question Number</b>	<b>Describe the overall trend in unemployment rates as shown in Figure 3a</b>	<b>Mark</b>
<b>3(a)(i)</b>	<p>The unemployment rate has declined overall from 2012 to 2017 <b>(1)</b></p> <p>Up to 2 more marks for further development or use of data to support argument e.g. In 2012 unemployment was 6.4% <b>(1)</b> and fell to 4.9% in 2017 <b>(1)</b></p>	<b>(3)</b>

<b>Question Number</b>	<b>Briefly explain two reasons why unemployment might be a problem for New Zealand.</b>	<b>Mark</b>
<b>3(a)(ii)</b>	<p>1 mark for reason, 1 mark for development</p> <p>e.g. loss of potential output <b>(1)</b> GDP is not as high as it could be because some labour is not being fully used <b>(1)</b></p> <p>e.g. unemployment (benefits/retraining) needs government expenditure <b>(1)</b> this has an opportunity cost (less available for healthcare/education) <b>(1)</b></p>	<b>(4)</b>

<b>Question Number</b>	<b>Frictional unemployment is caused by</b>	<b>Mark</b>
<b>3(a)(iii)</b>	<b>D</b> - people moving between jobs.	<b>(1)</b>

<b>Question Number</b>	<b>Explain one reason why unemployment rates might vary between different regions.</b>	<b>Mark</b>
<b>3(a)(iv)</b>	<p>1 mark for reason, 1 mark for development</p> <p>e.g. some areas might have contained traditional industries such as mining <b>(1)</b> when these industries close, unemployment rises and may remain high <b>(1)</b></p> <p>e.g. there may be more highly skilled labour in one area <b>(1)</b> meaning it is easier to find work in that region <b>(1)</b></p>	<b>(2)</b>

<b>Question Number</b>	Discuss the effectiveness of regional policy in reducing variations in unemployment rates such as those in New Zealand.	<b>Mark</b>
<b>3(a)(v)</b>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Regional policy is effective because:</p> <ul style="list-style-type: none"> <li>• policy can be targeted where it is most effective</li> <li>• training schemes can give new skills to those in areas of high structural unemployment</li> <li>• It directly addresses the needs of different areas rather than a one-size fits all approach</li> <li>• More effective in reducing structural unemployment</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Regional policy may not be effective because</p> <ul style="list-style-type: none"> <li>• Re-training may not work if there are no jobs in that area</li> <li>• Businesses may not want to move to these areas if too remote</li> <li>• May take a long time to be effective and may not be cost effective</li> <li>• Will have little effect if unemployment is demand deficient/cyclical.</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> <li>• depends on current state of economy. If in recession then may need to used with expansionary fiscal or monetary policy</li> <li>• depends on amount spent</li> </ul>	<b>(6)</b>

Question Number	This improvement may have been caused by	Mark
3(b)(i)	A - an increase in invisible exports	(1)

Question Number	Explain the difference between visible and invisible trade.	Mark
3(b)(ii)	Visible trade is the exchange of goods/tangible items (1) invisible trade is the exchange of services/intangible items (1)	(2)

Question Number	Assess the usefulness of GDP as an indicator of economic growth	Mark
3(c)(i)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>GDP is a useful indicator because</p> <ul style="list-style-type: none"> <li>• It is easy to use and understand</li> <li>• Allows a comparison between different countries</li> <li>• The higher the rate of change in GDP the higher the growth</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>GDP is not a useful indicator because</p> <ul style="list-style-type: none"> <li>• Does not take into account the hidden economy/home produced goods</li> <li>• Does not take into account inflation/population growth</li> <li>• Does not measure welfare/living standards</li> <li>• There may be statistical errors</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> <li>• Acceptable if failings understood</li> <li>• May be better to use a composite measure such as HDI</li> </ul>	(5)

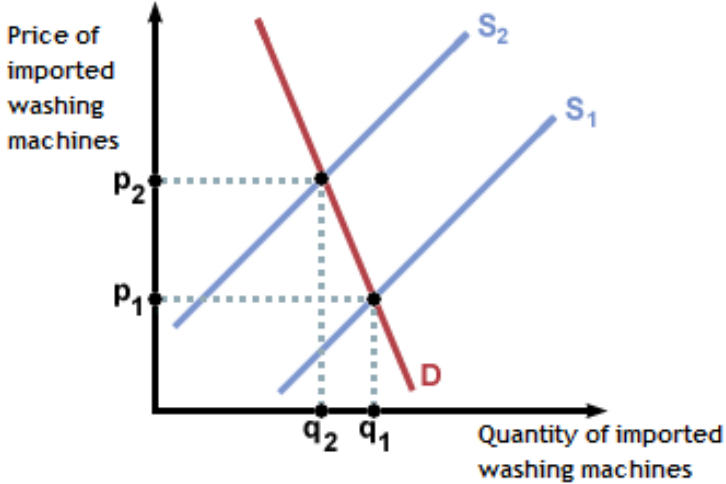


<b>Question Number</b>	Economic growth should be the main macroeconomic objective of an economy. Do you agree with this statement? Explain your reasons.	<b>Mark</b>
<b>3(c)(ii)</b>	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Economic growth should be the main macroeconomic objective of an economy because:</p> <ul style="list-style-type: none"> <li>• It improves living standards</li> <li>• It reduces unemployment</li> <li>• It increases government revenues enabling greater expenditure</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Economic growth should not be the main macroeconomic objective of an economy because:</p> <ul style="list-style-type: none"> <li>• Too high a rate of growth can be unsustainable</li> <li>• This may cause inflation</li> <li>• It can create externalities and the depletion of non-renewable resources</li> <li>• Other objectives might be more important e.g. full employment</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> <li>• depends on the rate of growth</li> <li>• depends on ability of the government to control externalities/inflation</li> </ul>	<b>(6)</b>

<b>Question Number</b>	<b>This is an example of</b>	<b>Mark</b>
<b>4(a)(i)</b>	<b>C - FDI (Foreign Direct Investment)</b>	<b>(1)</b>

<b>Question Number</b>	<b>Define the term 'multinational'</b>	<b>Mark</b>
<b>4(a)(ii)</b>	A business operating in more than one country <b>(1)</b> by producing goods/providing services in these other countries <b>(1)</b>	<b>(2)</b>

Question Number	Countries such as Zambia should encourage as many foreign companies as possible, such as FQM, to invest in their countries. To what extent do you agree with this statement? Explain your reasons.	Mark
4(a)(iii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Countries such as Zambia should therefore encourage as many foreign companies to invest as possible because:</p> <ul style="list-style-type: none"> <li>• they create employment and incomes</li> <li>• they create tax revenue</li> <li>• they export and improve the BofP</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Countries such as Zambia should therefore not encourage as many foreign companies to invest as possible because:</p> <ul style="list-style-type: none"> <li>• they might drive out local businesses/exploit workers</li> <li>• some may pay tax but many will avoid it</li> <li>• They may cause pollution and other externalities</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> <li>• Whilst some MNCs will bring benefits, too many would be damaging, a balance is needed</li> <li>• depends how well they are regulated</li> </ul>	<b>(6)</b>

Question Number	Using a suitable diagram, explain the impact of this tariff on the sale of imported washing machines in Zambia.	Mark
4(b)(i)	 <p data-bbox="430 1003 1134 1111">drawing S&amp;D diagram with original p and q <b>(1)</b>  shift of supply curve <b>(1)</b>  new p and q <b>(1)</b></p> <p data-bbox="430 1182 1246 1323">A tariff increases the price of imported washing machines <b>(1)</b> therefore fewer people buy them/people buy domestic substitute instead and this reduces the quantity of imports from <math>q_1</math> to <math>q_2</math> <b>(1)</b></p>	<b>(5)</b>

Question Number	Dumping is	Mark
4(b)(ii)	<b>C</b> - selling goods at less than the cost of production	<b>(1)</b>

Question Number	Apart from tariffs, identify and explain <b>one</b> other form of trade protection that Zambia might use.	Mark
4(b)(iii)	1 mark for identifying, 2 marks for development e.g. quota <b>(1)</b> by limiting the amount that can be imported <b>(1)</b> it forces up the price and reduces the quantity sold <b>(1)</b>	<b>(3)</b>

Question Number	In 2013 an imported US T-shirt costing \$10 sold for 52.5 ZMW in Zambia. Using Table 4a, calculate how much the T-shirt would cost in ZMW in January 2017.	Mark
4(c)(i)	$10 \times 10.02$ <b>(1)</b> $= 100.20$ <b>(1)</b>  Award 2 marks if only 100.20/100.2 ZMW given Award 1 mark if only 100.20/100.2 given	<b>(2)</b>

Question Number	Identify and explain <b>two</b> factors that might explain the change in the exchange rate shown in Table 4a.	Mark
4(c)(ii)	1 mark for factor, 1 mark for development. E.g.  Increase in imports <b>(1)</b> increases supply of kwachas and decreases value/kwacha depreciates <b>(1)</b>  level of interest rates <b>(1)</b> if interest rates decrease less foreign currency will be invested and the exchange rate will depreciate <b>(1)</b>	<b>(4)</b>

Question Number	The depreciation of a currency is always good for an economy. Do you agree with this statement? Give reasons for your answer.	Mark
4(c)(iii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The depreciation of a currency is always good for an economy because:</p> <ul style="list-style-type: none"> <li>• their exports will cost less in overseas markets increasing demand</li> <li>• this should mean increased economic growth</li> <li>• imports become more expensive and will decrease, which along with increased exports improves the BofP</li> </ul> <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The depreciation of a currency is not always good for an economy because</p> <ul style="list-style-type: none"> <li>• some imports may be necessary which may lead to cost-push inflation</li> <li>• rising prices reduce real incomes</li> <li>• it becomes more expensive to re-pay foreign loans</li> </ul> <p>Further guidance</p> <ul style="list-style-type: none"> <li>• Maximum for 1 sided argument (3 marks)</li> <li>• Maximum for both sides (4 marks)</li> </ul> <p>To reach 5 – 6 marks needs a reasoned judgement or conclusion. E.g.</p> <ul style="list-style-type: none"> <li>• depends on PED of exports and imports, nature of trading arrangements</li> <li>• depends on economic cycle, if downturn or recession, inflationary pressure not so great</li> </ul>	<b>(6)</b>