



Pearson

Mark Scheme (RESULTS)

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In Economics (4EC0/01) Paper 1

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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 1

Question Number	The original equilibrium point is X. For each of the following changes, starting from X, identify the new equilibrium point in Table 1. Each letter may be used more than once.	Mark
1(a)(i)	A rise in the wages of electric car production workers	J
	An advertising campaign for electric cars	B
	A fall in consumer incomes	G
	An increase in subsidies for electric cars and an increase in tax on petrol cars	C
		(4)

Question Number	Electric cars require large amounts of copper. It is estimated that production of copper will need to be doubled over the next 20 years. Explain why the supply of copper might be price inelastic in the short term.	Mark
1(a)(ii)	Copper is a mineral / primary product (1) new sources need to be found and extracted, this all takes time (1) meaning that supply cannot be increased rapidly in the short run (1)	(3)

Question Number	It has been estimated that the price elasticity of demand for electric cars is price elastic. An increase in the price of electric cars will therefore	Mark
1(a)(iii)	B – decrease total revenue	(1)

Question Number	Identify and explain two factors that might make a product, such as electric cars, price elastic.	Mark
1(a)(iv)	Identification of a factor (1 mark) with explanation (1 mark) e.g. Many substitutes (1) there are many other types of car such as petrol, that can be used in place of an electric car if the price rises (1) . e.g. proportion of income (1) electric cars/cars are expensive so even a small rise in the price, in percentage terms, will be too much for many people (1) .	(4)

Question Number	<p>In 2017 car production workers in the USA earned an average of \$25.58 per hour.</p> <p>The demand for labour is more important in determining wage rates than the supply of labour. Do you agree with this statement? Explain your reasons.</p>	Mark
1(a)(v)	<p>Arguments suggesting the demand for labour is more important in determining wage rates (1 mark) with development (up to 2 marks)</p> <ul style="list-style-type: none"> • Labour is a derived demand • Workers that make popular products will be in more demand • Their wages are likely to be higher than those workers who face declining demand for the product they make <p>The supply of labour is more important in determining wage rates (1 mark) with development (up to 2 marks)</p> <ul style="list-style-type: none"> • if there are not enough workers with the right skills • Wages will rise as employers try to attract workers • Workers with few or no skills are likely to be paid low wages as their supply is high <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 type of employment, if high levels of skill needed then supply may be the determining factor • If low level of skills then demand may be more important in determining wage rates 	(6)

Question Number		Mark
	Which of the points A, B, C, D or E represents an under utilisation of resources?	
1(b)(i)	D	(1)

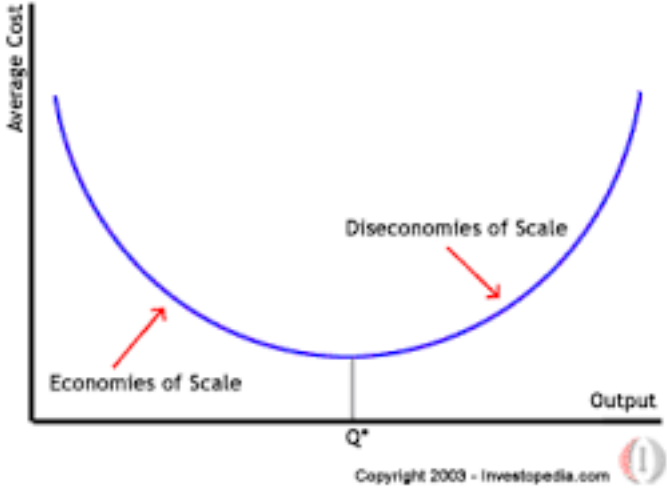
Question Number		Mark
	Using the data in Figure 1b, explain what is meant by opportunity cost.	
1(b)(ii)	Opportunity cost is the loss of the next best alternative (1) If the economy moves from C to B consumer goods have to be sacrificed to increase production of capital goods (1)	(2)

Question Number		Mark
	Briefly explain why point E on Figure 1b is currently unobtainable.	
1(b)(iii)	The PPF represents all those combinations possible using all resources (1) point E is beyond that point and there are not enough resources to produce both more consumer and capital goods (1)	(2)

Question Number		Mark
	A mixed economy attempts to solve the economic problem of	
1(c)(i)	C	(1)

Question Number	In a mixed economy, the larger the private sector, the more efficient the economy will be in producing goods and services. Do you agree with this statement? Explain your reasons.	Mark
1(c)(ii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The larger the private sector, the more efficient because...</p> <ul style="list-style-type: none"> • There is more competition in the private sector • As firms compete, costs are driven down resulting in lower prices for consumers • The profit incentive leads to more innovation and better quality goods and services <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>The larger the private sector, the less efficient because</p> <ul style="list-style-type: none"> • Fewer public and merit goods are likely to be provided • Competition can be wasteful e.g. excessive advertising • Individual firms in the private sector can become too powerful <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> <p>E.g.</p> <ul style="list-style-type: none"> • Some public sector provision is needed to supplement the private sector • Depends on the balance between the two • Depends how well private sector is run and regulated 	(6)

Question 2

Question Number	On Figure 2, label the axes and show where a firm would experience economies and diseconomies of scale.	Mark
2(a)(ii)	<div style="display: flex; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin-right: 20px;"> Long run Average Costs </div>  </div> <p>Average cost on vertical axis – 1 mark Output on horizontal axis – 1 mark Economies of scale – 1 mark Diseconomies of scale – 1 mark</p>	(4)

Question Number	With the aid of examples, explain the difference between internal and external economies of scale.	Mark
2(a)(ii)	<ul style="list-style-type: none"> • Internal economies of scale are the reductions in average costs gained as the firm expands (1) • For example, supermarkets buy in large quantities and can negotiate a lower price per item (1) • External economies of scale are reductions in average cost gained as the whole industry expands (1) • For example, the concentration of high tech firms in 'silicon valley' means shared expertise, infrastructure and support facilities which reduce average costs (1) 	(4)

Question Number	Economies of scale are necessary for a firm to be competitive. Do you agree with this statement? Explain your reasons.	Mark
2(a)(iii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Economies of scale are necessary for any firm to be competitive because</p> <ul style="list-style-type: none"> • A reduction in average costs means that price can be reduced without affecting profitability • Price is a source of competitive advantage • In a competitive market this can be crucial <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Economies of scale are not necessary for any firm to be competitive because</p> <ul style="list-style-type: none"> • Price is only one aspect of competitive advantage • Quality of product can be the most important factor • Many small businesses are successful despite their size <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 type of market, in a niche market price is less important • depends on type of consumer and what they consider important 	(6)

Question Number	Using examples from Table 2 explain the difference between a variable cost and a fixed cost.	Mark
2(b)(i)	<p>A variable cost changes with the level of output (1) Materials are a variable cost because the more ladders they make, the more materials they will have to buy (1)</p> <p>A fixed cost does not change with the level of output (1) Rent is a fixed cost because it has to be paid regardless of output (1)</p>	(4)

Question Number	<p>In October 2017 Aluco sold 1000 ladders at \$70 each.</p> <p>Calculate the profit made by the business. You are advised to show your working.</p>	Mark
2(b)(ii)	<p>Profit = TR – TC (1)</p> <p>TR = 1 000 x \$70 = \$70 000 (1)</p> <p>TC = (1 000 + 500 + 1 500) + 1000 x (45 + 5 + 10) (1)</p> <p>Profit = \$70 000 – \$63 000 = \$7000 (1)</p>	(4)

Question Number	Identify and explain one factor that may limit growth for a small business such as Aluco.	Mark
2(b)(iii)	<p>1 mark for factor, 1 mark for development</p> <p>Lack of finance (1) Banks are often reluctant to lend to small businesses as they are considered risky (1)</p>	(2)

Question Number	Like many businesses, Aluco operates in a highly competitive market. Assess the effectiveness of government policies to promote competition in a country of your choice.	Mark
2(b)(iv)	<p>Identify and explain the policies (up to 3 marks)</p> <ul style="list-style-type: none"> • e.g. in the UK government regulation of large firms – competition and markets authority CMA. This prevents exploitation of monopoly power • e.g. the UK government encourages small firms with grants, subsidies and advice <p>A judgement is made as to the effectiveness of these policies (up to 3 marks)</p> <ul style="list-style-type: none"> • Some firms still have too much power • Small firms may become reliant on government support and may become inefficient • Level of support may be insufficient for small firms to survive 	(6)

Question 3

Question Number	Identify which stage of the economic cycle Ecuador experienced during 2010 and during 2016. Give reasons for your answers.	Mark
3(a)(i)	1 mark for correct identification of stage, 1 mark for development of reason e.g. boom (1) rapid growth in space of a year from -2% to 8% (1) e.g. recession (1) more than two quarters of negative growth of GDP (1)	(4)

Question Number	By the end of 2017, economic growth in Ecuador was increasing rapidly. Explain two advantages of economic growth.	Mark
3(a)(ii)	1 mark for advantage, 1 mark for development e.g. increased incomes (1) people can buy more goods and services than before (1) e.g. more tax revenue (1) with more tax revenue the government can spend more on health and education to help future growth (1)	(4)

Question Number	One disadvantage of economic growth is pollution and environmental damage. Ecuador uses an Environmental Tax on Vehicle Pollution (ETVP), to reduce pollution caused by motor vehicles. Taxation is the best way for the government to protect the environment. Do you agree with this statement? Explain your answer.	Mark
3(a)(iii)	<p>Arguments supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Taxation is the best way because...</p> <ul style="list-style-type: none"> • Taxation increases the cost of the polluting activity • Less is consumed leading to a fall in pollution and less damage to the environment • Tax revenue can be used to protect the environment <p>Arguments not supporting the statement (1 mark) with development (up to 2 marks)</p> <p>Taxation is not the best way because</p> <ul style="list-style-type: none"> • It is regressive and hits less well off people the hardest • Richer people will just continue to pollute • The polluting activity may be price inelastic and therefore taxes have little impact <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 size of the tax • Taxation may well be effective if used with other strategies such as regulation and/or education 	(6)

Question Number	In September 2017 the inflation rate in Ecuador fell to -0.03%. The Central Bank of Ecuador responded by reducing the interest rate from 8.25% to 7.75%. This is an example of	Mark
3(b)(i)	A. Monetary policy	(1)

Question Number	Identify and briefly explain two possible causes of inflation.	Mark
3(b)(ii)	1 mark for cause, 1 mark for development e.g. demand-pull (1) demand in the economy exceeds the supply of goods and services forcing prices up causing inflation (1) e.g. cost-push (1) the price of inputs such as oil or raw materials rises which increases production costs. To maintain profit levels, firms increase prices leading to inflation (1)	(4)

Question Number	Consumers will always benefit from a reduction in interest rates. Assess this statement.	Mark
3(b)(iii)	1 mark for identifying impact of reduction in interest rates e.g. borrowing becomes cheaper (1) Up to 3 marks for how consumers benefit e.g. <ul style="list-style-type: none"> • Consumers can afford to borrow/borrow more (1) • This enables items such as luxury goods to be purchased (1) • Mortgage repayments may fall increasing real income (1) Evaluation 1 mark for making a judgement on likely benefit e.g. savers will receive less interest and will not benefit (1)	(5)

Question Number	Ecuador has one of the lowest unemployment rates in Latin America. In October 2017 it was 5.8%. The government claimed that this was the result of its focus on supply side policies. To what extent are supply side policies the best way to reduce unemployment in an economy?	Mark
3(c)	<p>Arguments supporting the statement that supply side policies are the best way (1 mark) with development (up to 2 marks)</p> <p>Supply side policies are the best way to reduce unemployment because</p> <ul style="list-style-type: none"> • They can provide training and skills • This enables unemployed workers to gain the skills needed for work • Incentives can attract employers to set up business in areas of high unemployment <p>Arguments not supporting the statement that supply side policies are the best way (1 mark) with development (up to 2 marks)</p> <p>Supply side policies are the best way to reduce unemployment because</p> <ul style="list-style-type: none"> • No point in training workers if jobs are not available • Will not work on seasonal or cyclical unemployment • Can be very expensive to implement <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 what has caused the unemployment • May be best used in conjunction with other policies 	(6)

Question 4

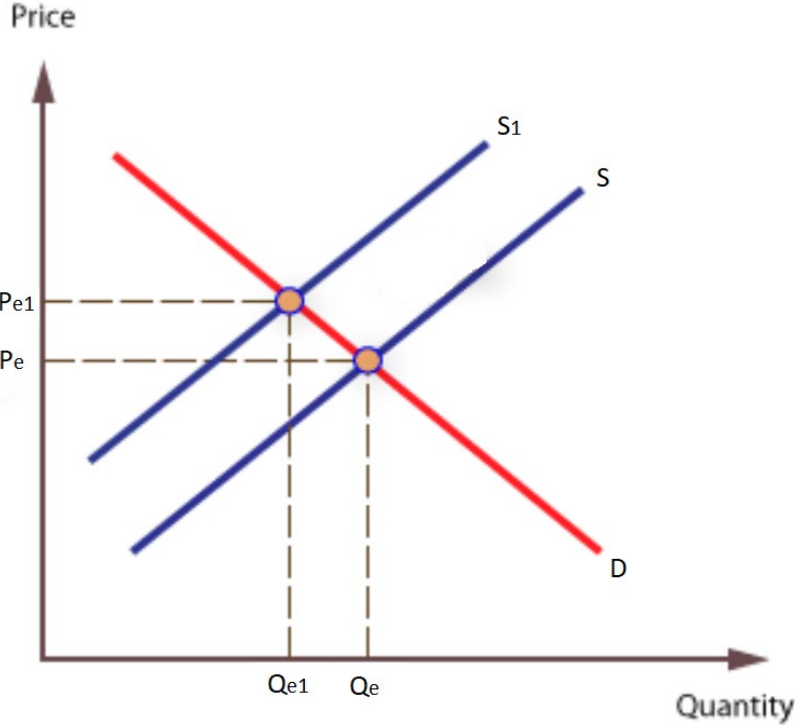
Question Number	The Philippines is said to be a developing country. The characteristics of a developing country include	Mark
4(a)(i)	C low GDP per capita, high population growth and low labour productivity	(1)

Question Number	The European Union (EU) is the largest source of foreign direct investment (FDI) in the Philippines. It also provides an estimated 250 million euros in development aid. Explain the difference between FDI and development aid.	Mark
4(a)(ii)	FDI is money invested into a country by a firm from another country (1) Development aid is money and other forms of assistance given to one country by another country (1)	(2)

Question Number	FDI from the EU is said to have created 500,000 jobs in the Philippines. Apart from direct employment, explain two other benefits that FDI can bring to the economy of a country such as the Philippines.	Mark
4(a)(iii)	1 mark for benefit, 1 mark for development e.g. technology transfer (1) new technology can arrive with foreign firms that can be used and adapted by the host country (1) e.g. Infrastructure (1) FDI can take the form of developing infrastructure to help the incoming firm, this also benefits the host country (1)	(4)

Question Number	<p>The peso is the currency of the Philippines. Between 2013 and 2017 it depreciated against the US dollar and most major currencies.</p> <p>Assess the impact this depreciation may have had on firms involved in international trade in the Philippines.</p>	Mark
<p>4(a)(iv)</p>	<p>Arguments showing negative impact of depreciation (1 mark) with development (up to 2 marks)</p> <ul style="list-style-type: none"> • Imports become more expensive as more pesos must be exchanged for each dollar • Firms that import may lose profitability • Raw materials and oil will cost more, increasing a firm's costs making it less competitive <p>Arguments showing positive aspect of depreciation (1 mark) with development (up to 2 marks)</p> <ul style="list-style-type: none"> • Exports become cheaper as less foreign currency needs to be exchanged for the same number of pesos • Exporting firms become more competitive and see increased sales • Domestic firms that compete with the now more expensive imports may benefit in the form of increased sales <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> <p>E.g.</p> <ul style="list-style-type: none"> • Depends on PED for imports and exports as to how much change there will be • Depends on extent of depreciation 	<p>(6)</p>

Question Number	The Philippines has free trade agreements with China, India, Japan, Republic of Korea, Australia and New Zealand under ASEAN (Association of Southeast Asian Nations). Explain one advantage and one disadvantage of free trade for a country such as the Philippines.	Mark
4(b)(i)	1 mark for advantage/disadvantage, 1 mark for development e.g. exports no longer carry a tariff (1) They become more competitive in foreign markets and sales increase (1) e.g. no protection from imports (1) imports become more competitive and may harm the sales of domestic firms (1)	(4)

Question Number	<p>The Philippines still imposes tariffs on some imports from other countries, for example, potatoes are subject to a 40% tariff.</p> <p>Figure 4 shows the market for imported potatoes in the Philippines before a tariff is imposed.</p> <p>Using Figure 4 show the effect of introducing the tariff on imported potatoes. Label any resulting changes to equilibrium price and quantity.</p>	Mark
4(b)(ii)	 <p>Shift of S curve to the left (1) Correct placement of P_{e1} (1) Correct placement of Q_{e1} (1)</p>	(3)

Question Number	Explain two possible reasons why the Philippines might impose tariffs on some imports.	Mark
4(b)(iii)	1 mark for reason, 1 mark for development e.g. to raise revenue (1) this increases government revenue enabling greater expenditure to improve economy (1) e.g. to protect infant industries (1) imports become more expensive and give domestic firms a chance to grow (1)	(4)

Question Number	<p>In the second quarter of 2017, the Philippines' exports of agricultural commodities rose by 2.6% to just over US\$4bn. This was mainly because of rising global commodity prices.</p> <p>Assess the benefits that the production of commodities brings to the economy of a country such as the Philippines.</p>	Mark
4(c)	<p>Arguments outlining benefits (1 mark) with development (up to 2 marks)</p> <ul style="list-style-type: none"> • Creates employment by making use of natural resources • Contributor to GDP and growth • Positive contribution to current account <p>Arguments qualifying benefits (1 mark) with development (up to 2 marks)</p> <ul style="list-style-type: none"> • Over reliance on commodities can be dangerous if a substitute is found or other nations begin to produce the same commodities • Commodity prices are volatile and may also drop • Which will lead to low growth <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 extent to which the economy relies on the commodities • Depends on whether the commodities are likely to continue to be in demand 	(6)