



**General Certificate of Secondary Education
2019**

Economics

Paper 1

[G9281]

FRIDAY 24 MAY, AFTERNOON

**MARK
SCHEME**

Introduction

Mark schemes are intended to ensure that the GCSE examinations are marked consistently and fairly. The mark schemes provide markers with an indication of the nature and range of candidates' responses likely to be worthy of credit. They also set out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for Economics.

Candidates must:

- AO1** recall, select and communicate their knowledge and understanding of concepts, issues and terminology;
- AO2** apply skills, knowledge and understanding in a variety of contexts; and
- AO3** analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 16-year-old which is the age at which the majority of candidates sit their GCSE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 16-year-old GCSE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking Calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

Tasks and questions requiring candidates to respond in extended writing are marked in terms of levels of response. In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement. The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within levels of response as follows:

- Level 1: Quality of written communication is limited.
Level 2: Quality of written communication is satisfactory.
Level 3: Quality of written communication is of a high standard.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Limited): The candidate makes only a limited selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a reasonable selection and use of an appropriate form and style of writing. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning clear.

Level 3 (High Standard): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning clear.

Section A

AVAILABLE
MARKS

1 (a) Explain one economic characteristic of a developing country.

Characteristic of a developing country include:

- Low GDP per capita
- Low levels of life expectancy
- Low levels of participation in education
- High levels of malnutrition
- High percentage of population employed in primary production
- Limited range of exports
- High levels of debt.

Allow [1] for demonstrating knowledge and understanding of a relevant characteristic and [1] for explanation.

(2 × [1])

AO1 × [1], AO3 × [1]

[2]

(b) Explain what is meant by foreign aid.

Foreign aid is provided to developing countries by developed countries. Examples include finance for infrastructure projects, professional expertise, or basic provisions following a natural disaster such as a hurricane or earthquake, e.g. food, water, shelter and medical support.

Allow [1] for demonstrating knowledge and understanding of a relevant characteristic and [1] for explanation.

(2 × [1])

AO1 × [1], AO3 × [1]

[2]

(c) Explain one advantage and one disadvantage of foreign aid.

Possible responses include:

Advantage

- Aid can assist redevelopment after natural disasters
- It can provide capital equipment needed for economic development
- It can provide expertise and skilled labour in areas like health care and education.

Disadvantage

- Aid being offered may not be appropriate for the needs of developing countries
- It may be misused or help fuel corruption
- There is an opportunity cost for the donor country.

For each advantage and disadvantage of foreign aid, allow [1] for demonstrating knowledge and understanding and [1] for explanation.

(2 × [1] × 2)

(AO3: [4])

[4]

8

2 (a) What is meant by Price Elasticity of Demand (PED)?

Price Elasticity of Demand measures the responsiveness of quantity demanded to a change in price.

Allow [1] for a partially correct definition and [2] for a correct definition.
(AO1: [2])

[2]

(b) Using the formula outlined, calculate the Price Elasticity of Demand for burgers.

% change in quantity demanded = 5% (Provided to students)

% change in price = 20% [1]

PED = 0.25 [1]

Allow [1] for correct calculation of percentage change in price; allow [1] for the correct calculation of PED.

(AO2: [2])

[2]

(c) Should Burgerland increase the price of burgers? Briefly explain your answer.

The Price Elasticity of Demand is inelastic therefore a rise in price will lead to an increase in total revenue. If Burgerland increases the price, their total revenue will increase.

Allow [1] for correct identification that total revenue (TR) will increase if the price increases and [1] for the supporting explanation that when PED is less than 1, an increase in price results in an increase in TR (PED is inelastic).

(AO3: [2])

[2]

6

3 (a) What is meant by income tax?

Income tax is a direct tax which is placed on income which could be earnings from work, and includes income earned from savings, property and other investments. It is usually levied as a percentage of income. In the UK income tax is a progressive tax as the percentage of tax levied rises as income increases.

Allow [1] for demonstrating knowledge and understanding and [1] for development.

(2 × [1])

(AO1: [2])

[2]

(b) Explain one reason why the government collects income tax.

There are a number of reasons why the government collects income tax. These include:

In order to fund public services. Income tax is the single biggest source of government revenue.

To reduce income inequality by taking more tax of the wealthy than the less well off.

To manage the economy.

Allow [1] for demonstrating knowledge and understanding and [1] for explanation.

(2 × [1])

(AO3: [2])

[2]

(c) Explain one possible effect on the economy if the government reduces income tax.

A reduction in income tax can have a number of possible effects on the economy. These include:

- Less money will be available for spending on public services which means the government will either have to cut back on public spending or increase its borrowing
- There will be an increase in disposable income and people can use this to consume more goods and services and improve their standard of living
- Increased consumer spending could be inflationary
- There could be an increase in demand for imported goods and services leading to larger trade deficit
- The government may have to increase other taxes such as VAT to make up the shortfall in revenue.

Other valid answers will be credited.

Allow [1] for a partially correct response and [2] for a valid response that outlines the relevant effect.

(AO3: [2])

[2]

6

Section B

AVAILABLE
MARKS

- 4 (a) Describe what happened to the price of milk between January 2016 and July 2017.

Overall, there has been an upward trend in the price. In January 2016, milk was priced at 18.5 pence per litre, by July 2017 it had risen to 28 pence per litre. The price of milk was stable until June 2016; it then increased until December 2016 when it stabilised at just below 30 pence per litre.

Allow [1] for identifying starting price, [1] for identifying final price [1] for stating an increase and [1] stating that the price doesn't steadily rise or that in general, there is an upward trend in price.

(AO2: [4]) [4]

- (b) Using this information plot the demand and supply curve on the graph paper to show the market for milk in the summer months of 2017.

Allow [1] for choosing vertical axes to show price of milk and correctly labelling; [1] for horizontal axis chosen for quantity of milk and labelled; [1] for correctly plotting demand curve; [1] for correctly plotting supply curve; [1] for correctly identifying equilibrium price as 25 pence and [1] for identifying equilibrium quantity as 175

(AO2: [6]) [6]

- (c) The supply of milk increases by 25 000 litres at every price. Using your diagram show how this increase in supply will change the equilibrium (market clearing) price and quantity.

Allow [2] for correctly plotting new supply curve; allow [1] for indicating the new equilibrium price at 22.5 pence and allow [1] for indicating the new equilibrium quantity as 187500 litres.

(AO2: [4]) [4]

(d) *Discuss the possible impact of rising milk prices on milk producers and other businesses that use milk as a raw material.*

AVAILABLE
MARKS

A rise in the price of milk can have both a positive and negative impact. These include:

- Producers (farmers) should receive a rise in payment for the raw material (milk) and this will help raise their living standards and make them less economically vulnerable
- Dairies that process milk should also see a rise in revenue.

However, the higher price of milk could have adverse effects on other parts of the economy:

- More suppliers may enter the market and force the market price down
- Businesses that use milk as a raw material in the production of products such as cheese and yogurt will see an increase in their costs.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[2])

(AO1: [2])

The candidate demonstrates some understanding of the possible impact of rising milk prices but this is poorly explained or underdeveloped. Quality of written explanation is limited.

Level 2 ([3]–[4])

(AO1: [3], AO2: [1])

The candidate demonstrates a reasonable understanding of the possible impact of increased milk prices across the economy. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

(AO1: [4], AO2: [2])

The candidate demonstrates a clear understanding of the possible positive and negative impacts of rising milk prices. Quality of written communication is of a high standard.

[6]

20

5 (a) *Explain what is meant by inflation.*

Inflation is a sustained increase in the general level of prices over a set period of time. In the UK it is measured by the CPI.

Allow [1] for a partially correct explanation and [2] for a fully developed definition.

(AO1: [2])

[2]

(b) *Describe what has happened to UK inflation between January 2012 and December 2017.*

For the first 3 years, from January 2012 to mid 2015, there was an overall downward trend. CPI in this time period fell from 3.5% to close to zero. From January 2015, i.e. over the last 2 years, there has been a steady increase in CPI inflation from close to zero to just over 3%. Hence this increase was at a faster rate.

Over the five years, inflation has closed at the same rate as it started, i.e. in and around 3%.

Allow [1] for identifying starting rate, [1] for identifying final rate, [1] for stating the initial decrease and [1] for stating that the rate of inflation starts to rise more quickly after January 2015 to finish at 3% in December 2017.

(AO2: [4])

[4]

(c) *Explain two reasons why the government would be concerned about inflation rising.*

There are a number of reasons why the government might be concerned about rising inflation. These include:

- If inflation rises faster than wages this will lead to real wages falling causing a fall in standard of living
- If real wages fall then the level of demand in the economy may fall leading to a slowdown in economic growth
- Rising inflation may make UK exports less competitive leading to a worsening of the trade deficit.

Allow [1] for identifying each reason why the government might be concerned about rising inflation and a further [2] for developing each explanation.

(2 × [3])

(AO1: [2], AO3: [4])

[6]

(d) Identify two policies the government could use to reduce inflation and discuss the impact of each policy on the economy.

AVAILABLE
MARKS

Government can follow a number of policies.

- Monetary policy. This is carried out by the Bank of England. It would involve raising the rate of interest. As a consequence consumers and firms would both borrow less leading to a fall in aggregate demand. Whilst this may reduce inflation it could also cause slower growth and higher unemployment
- Fiscal policy. Tax Increases either in the form of income tax or indirect taxes such as VAT or excise duties could be used to reduce consumers' disposable income and their consumption. This would lead to a fall in aggregate demand reducing inflation. However, the fall in demand could cause a rise in unemployment. It could also reduce consumer living standards. The government could also cut public spending. This would help reduce demand and therefore reduce inflation. However, it could lead to a decline in the quality of public services. They could also impose a freeze on public sector pay which would also reduce aggregate demand
- Supply side policies. The government could pursue policies to make the economy more effective and efficient to increase the aggregate supply in the economy and reduce inflationary pressure. Examples include reducing the power of trade unions and therefore their ability to negotiate higher wages or changes to the regulatory conditions in the economy. However, these policies take a long time to be effective.

Allow [1] for identifying each policy and up to [3] for a discussion of its impact. Alternate approaches will be accepted.

(2 × [4])

(AO1: [2]; AO3: [6])

[8]

20

6 (a) *Explain the difference between credit and non-credit means of payment.*

A non-credit means of payment is the use of cash or near-cash to complete the transaction, whereas buying items on credit effectively defers the payment while allowing consumers access to enjoy the good or service. However, it can be a very expensive way to pay for purchases. There is also the potential for people to run up large debt if they do not use them responsibly.

Cash is the most recognisable form of non-credit payment and is generally used in the payment of everyday small purchases although it is becoming less popular. Consumers often purchase goods and services using debit cards linked to their bank accounts and the relatively new 'contactless' forms of payment using a mobile device or swiping a debit card are becoming increasingly popular. The transaction is completed with the payment straight away from the buyer's bank account to the seller's bank account. Other relatively new forms of electronic funds transfer, such as PayPal, fit into the non-credit category of payment.

Paying for goods and services using credit means that consumers are borrowing in order to consume immediately and deferring the actual payment through the use of a range of financial services such as loans, credit or store cards. A loan is negotiated with a financial provider with agreed terms that cover the repayment period and rate of interest. For example, banks may provide customers with a personal loan enabling them to make a large purchase immediately. Credit cards and store cards are obtained by application to the financial service provider. They provide consumers with additional potential spending power up to an agreed maximum limit. Consumers receive a monthly statement that requires them to make a minimum payment and any outstanding balance is carried over to the next month at an agreed rate of interest.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[2])

The candidate demonstrates some understanding of the idea of credit and non-credit forms of payment but this is poorly explained or underdeveloped. Quality of written communication is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of credit and non-credit forms of payment but the explanation could be more fully developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of credit and non-credit forms of payment with good development. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[6]

- (b) *Young workers are encouraged to plan for the future. Analyse two relevant financial products that they may choose.*

AVAILABLE
MARKS

There are a number of forms of financial products that would be appropriate to a young worker planning for the future. These include:

- A pension product – depending on the type of employment and whether a good occupational pension is part of the remuneration, a young worker may choose to invest in a pension product to ensure that they have adequate finances at a later stage in their lives. This may help allow them to retire at an age of their choosing. Financial products are provided by many of the large financial service providers and they are effectively a long term form of savings
- Mortgage. This is a long term loan secured on property. It is normally repaid with interest over a period of typically 20 to 30 years. House purchase is usually financed with a mortgage, though mortgage finance can be used to pay for other items. A young worker is likely to aspire to be on the property ladder and see home ownership as a form of saving and preparing for their long term financial future
- A savings product – there is a wide range of products in the market provided by the financial services sector and the government (National Savings and Investment). The rate of interest on specific products is likely to vary depending on whether the customer wants immediate access to their cash or are prepared to give a longer period of notice to access any funds. ISA products have been popular because of their tax benefits.

Other valid responses will be credited.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[3])

The candidate is aware of some relevant financial products but the points are incomplete or not well developed. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate provides a reasonable analysis of two relevant financial products. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate provides a thorough analysis of two relevant financial products. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[9]

(c) *Discuss the costs and benefits to the economy of a rise in consumer credit.*

AVAILABLE
MARKS

The costs and benefits to the economy could be grouped under individuals, firms and the economy as a whole.

Individuals. The main advantage to individuals is that it allows them to purchase items now and spread payment for them over a longer period of time. This is important for paying for more expensive items such as a new TV or a holiday. It also allows individuals to meet emergency bills, for example, an unexpected car repair or storm damage to a house. The disadvantage is that interest, which can be quite high in some cases, has to be paid and this can be expensive. It would be more beneficial to consumers to save in advance for purchases or to have a stock of saving for emergencies. Unfortunately low incomes prevent many consumers from doing that. Some consumers may borrow more than they can repay, especially if interest rates rise, and this can lead to a range of problems such as less disposable income or, in the worst case, house repossession or bankruptcy.

Firms. Firms can benefit from increased consumer credit as consumers will be spending this money on goods and services that they produce. This will lead to a rise in revenue and profit. In the case of banks and other financial services firms they will make more revenue from fees and interest. However, if consumers overextend themselves they will stop borrowing and spending may fall as they prioritise the repayment of existing debts. This can lead to a sudden fall in demand. Banks and other firms in the financial services sector may be left with bad debt as consumers are unable to make repayments possibly threatening their solvency.

Economy as a whole. Rising consumer debt means a rise in consumer demand. This rising demand will fuel economic growth and lead to a fall in unemployment. Government tax revenues from taxes on spending such as VAT will increase helping reduce the budget deficit and allowing for higher government spending. However, the increased spending may generate inflation or a trade deficit.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[5])

The candidate identifies some possible costs or benefits to the economy of a rise in consumer credit but points are not developed or discussed. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses some costs and benefits to the economy of a rise in consumer credit. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

The candidate discusses a range of costs and benefits to the economy of a rise in consumer credit. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[15]

30

7 (a) *Explain what is meant by a social cost.*

A social cost is the total cost to society of producing or consuming a good or service. It includes private costs which are paid by the producer or consumer and any external costs which are paid by third parties. For example, the private cost of owning and running a car is the direct financial cost of purchasing the car and the cost of running it to include insurance, road tax, fuel and maintenance. The negative externalities include traffic congestion, noise pollution and fuel emissions. Hence the social cost includes all the direct private costs and the negative externalities.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[2])

The candidate demonstrates some understanding of the concept of social costs. Quality of written communication is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of the concept of social costs but their answer could be developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear and precise understanding of the concept of social costs. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[6]

AVAILABLE
MARKS

- (b) Explain three social costs that occur when consumers choose to own and use cars as their main form of transport.

The use of cars gives rise to a number of private and external costs (social costs). These include:

Private Cost

- Car purchase. The owner will have to pay for the car. These payments may be made over a period of time in the form of Hire Purchase or personal loan repayments
- Car running costs. The owner will have to pay for fuel. In addition there will be the cost of car tax and insurance
- Car maintenance. This will include annual servicing and the replacement of items such as tyres and wiper blades

External Costs

- Congestion costs. Large numbers of cars cause congestion. This will add to business costs
- Pollution. Cars generate air and noise pollution. Air pollution can contribute to global warming. It also causes respiratory illnesses and damages buildings and vegetation
- Road construction and maintenance. Roads and associated infrastructure such as traffic signals have to be paid for
- The effects of road collisions that include loss of life and costs to the NHS.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[3])

The candidate explains a number of social costs but that explanation is limited. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate provides a reasonable explanation of three social costs of car usage. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate provides a thorough examination of three social costs of car usage. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[9]

AVAILABLE
MARKS

(c) *Discuss the impact on individuals, firms and the economy as a whole of the plan to ban petrol and diesel cars.*

AVAILABLE
MARKS

The banning of petrol and diesel cars will have a number of impacts

Individuals

- They will have to purchase electric cars which may be more expensive
- Some individuals may become unemployed as their skills, e.g. repair of internal combustion engines will no longer be required

Firms

- Some car manufacturers may not be able to adjust to the new technology and may go out of business. At the same time new companies may successfully enter the car market
- Similarly some support industries such as petrol stations and car maintenance workshops may go out of business. On the other hand there will be a growth in demand for other products such as batteries.

Economy

- There could be a loss of jobs in areas such as car maintenance and fuel supply leading to unemployment
- If the car industry fails to adopt there could be an increase in imports of electric cars. On the other hand successful development of an electric car industry could lead to a rise in exports
- The government may lose tax revenue earned from the sale of fuels
- Pollution should be reduced and this should also have a positive impact on air quality and overall health
- Imports of non-petrol fuelled vehicles could increase.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[5])

The candidate identifies some possible issues that may arise from the banning of petrol and diesel cars. Any conclusion is unbalanced and inadequately supported. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses a range of possible benefits and drawbacks of banning diesel and petrol cars for individuals, firms and the economy as a whole. A conclusion is reached and supported. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

A wide range of possible benefits and drawbacks of banning diesel and petrol cars for individuals, firms and the economy as a whole are developed and thoroughly discussed. A balanced and reasoned conclusion is provided. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[15]

30

8 (a) Explain the role of a trade union and how it may affect the labour market.

AVAILABLE
MARKS

A trade union is an organisation of workers who combine together in order to improve their wages and working conditions. The trade union will seek to negotiate collectively with employers on behalf of its members. Examples of trade unions are UNISON, UNITE and NAS/UWT although total membership of trade unions has fallen in recent decades.

Trade unions generally attempt to recruit all the workers in a particular firm or industry as members.

The union then engages in collective bargaining with the employer. If it is the sole supplier of labour it is able to negotiate a higher wage for its members than they could do individually. If workers were to negotiate on an individual basis they would be competing with each other and the employer could force down wages. Workers in unionised companies generally receive higher pay than those in non unionised companies. Specific influences on the labour market include:

- Opposing redundancies
- Trying to improve pensions which may lead to more early retirement
- Campaigning for better training which may increase the skill level of the workforce

Other valid responses will be credited

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[2])

The candidate demonstrates some basic understanding of trade unions and how they may affect the labour market but this is poorly explained or underdeveloped. Quality of written communication is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of trade unions and how they may affect the labour market but the explanation could be more fully developed. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of trade unions and how they may affect the labour market. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[6]

(b) Examine the possible advantages and disadvantages of the National Minimum Wage for the UK labour market.

AVAILABLE
MARKS

The rates of the NMW are recommended by the Low Pay Commission on behalf of government. In 2017, the standard rate for workers aged over 25 was £7.83 per hour. Lower rates applied to younger workers and apprentices. The NMW for workers over 25 is frequently referred to as the National Living Wage.

Advantages of the NMW include:

- Lower paid workers have the legal protection of a minimum rate at which they must be paid. This helps to raise their income and their standard of living
- Rates are also set for younger workers and apprentices giving them some legal protection about the minimum that they must be paid per hour, and greater incentive to work
- Higher wages are likely to motivate workers to be more effective and efficient which helps to boost output in the economy
- Raising the wages of lower paid workers should help to lift their total earning above the threshold for many benefits. This will lower the demand on the government's public sector spending
- NMW should attract more people to become economically active helping to boost the output of the economy.

Disadvantages of the NMW include:

- The level at which the NMW is set may still be too low to ensure a living wage for many workers. This may be a disincentive to some workers
- If the rate is considered too low, it may lead to more 'black economy' activity with more people being paid cash and activity going unrecorded for tax purposes
- Employers may seek much greater efficiency from their workers if they are paying them the NMW and this may lead to reduced conditions of service
- The NMW reduces the strength of trade unions to negotiate higher wage rates for lower paid workers
- Employers will be faced with higher total wages bills and this will put pressure on their finances possibly leading to a reduction in the number of workers they employ.

Level 0 ([0])

There is no content worthy of credit.

Level 1 ([1]–[3])

The candidate demonstrates some understanding of the NMW and of its advantages and disadvantages for the labour market. Quality of written communication is limited.

Level 2 ([4]–[6])

The candidate demonstrates a reasonable understanding of the NMW and of its advantages and disadvantages for the labour market. The answer shows some development and detail. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

The candidate provides a thorough examination of the NMW and of its advantages and disadvantages for the labour market. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[9]

(c) *Discuss the costs and benefits to the UK economy of a general increase in wages.*

AVAILABLE
MARKS

If there were to be an increase in the general level of wages, it would have several effects on the UK economy. These include:

- Workers would have an increase in wages boosting their spending power and increasing their standard of living
- Increased wages might reduce the level of personal debt and boost savings
- The increased spending resulting from higher wages will boost demand for goods and services and increase firms' revenue and possibly their profits
- Higher wages might improve workers' motivation and boost productivity
- With higher wages and higher spending, government tax revenue is expected to rise. In addition fewer workers would need in-work benefits so the budget deficit should fall
- The greater level of demand in the economy could lead to increased output boosting economic growth. This in turn could lead to lower unemployment.

However, an increase in wages could also have a damaging effect on the economy.

- Firms may not be able to pay all their workers the higher wages and may have to make some of them redundant increasing unemployment
- The rise in wage costs may cause firms to increase prices generating unemployment
- With higher costs, firms will make less profit. As a result, investment may slow down or reduce leading to lower rates of economic growth
- Workers may spend their additional income on imports which will mean a worsening trade deficit
- Government will have to pay higher public sector wages which may mean less money for other areas of government spending
- Higher levels of aggregate demand could be inflationary.

Level 0 ([0])

The candidate's response contains no content worthy of credit.

Level 1 ([1]–[5])

The candidate identifies some possible points that may arise from increased wages but they are not developed or discussed. Quality of written communication is limited.

Level 2 ([6]–[10])

The candidate briefly discusses a range of benefits and drawbacks of increased wages. Quality of written communication is satisfactory.

Level 3 ([11]–[15])

A wide range of benefits and drawbacks of increased wages are developed and thoroughly discussed. Quality of written communication is of a high standard.

(AO1; AO2; AO3)

[15]

30

Total

90