



*Rewarding Learning*

**General Certificate of Secondary Education  
2025**

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# **Economics**

Paper 1

**[G9281]**

**WEDNESDAY 14 MAY, AFTERNOON**

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**MARK  
SCHEME**

## **General Marking Instructions**

### ***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) Define the term opportunity cost.

The opportunity cost is the value of the next best alternative foregone when a choice is made.

Allow up to [2] for a clear and accurate definition, allow [1] for a flawed or partial definition.

(AO1: [2]) [2]

(b) With reference to the diagram, what is the opportunity cost of BMW reallocating resources to produce 40 more petrol cars, moving from point A to B?

10 electric cars

Allow [2] for the correct number.

(AO2: [2]) [2]

(c) Explain how BMW could produce at point C on the PPF diagram.

Point C will mean BMW can produce more petrol and electric cars. This could only be achieved if BMW enhanced the quality and/or quantity of its factors of production, e.g. providing advanced training to employees in electric vehicle technology or investing in more advanced machinery and equipment specifically designed for electric car production.

Allow up to [2] for a clear and accurate response, allow [1] for a flawed or partial response.

(AO1: [1]; AO2: [1]) [2]

6

2 Table 1 below shows the price and quantity of pints of milk produced on a local farm weekly.

Price per pint £	Quantity of pints of milk produced per week
£1.20	2000
£1.50	3000

(a) (i) Using Table 1, calculate the price elasticity of supply of pints of milk if the price of each pint increases from £1.20 to £1.50.

Award [2] marks for a correct answer even if no working out is shown.  
Award [1] mark if the work is correct but the final answer is inaccurate.

(AO2: [2]) [2]

Calculations % change in quantity supplied = 50% % change in price = 25% PES = 2
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(ii) With reference to your answer, is the price elasticity of supply elastic or inelastic? Explain your answer.

The price elasticity of supply (PES) is 2, which is greater than 1. This indicates that the supply of pints of milk is elastic.

Award [1] mark for stating PES is elastic, and a further [1] mark for stating it is because the coefficient is greater than one.

Award [1] for OFR.

(AO1: [1]; AO2: [1]) [2]

(b) Explain the importance of price elasticity of supply for milk producers.

If the supply of milk is elastic, producers can respond easily to price changes and change output accordingly.

Allow up to [1] mark for a clear and accurate explanation and allow [1] mark for a flawed or partial explanation.

(AO1: [1]; AO2: [1]) [2]

(c) Illustrate the effect on the demand and supply diagram below of the government giving a subsidy to milk producers.

Award [1] for showing the rightward shift in the supply curve, and [1] for showing the fall in equilibrium price and the extension of demand.

(AO1: [1]; AO2: [1]) [2]

AVAILABLE  
MARKS

8

3 Table 2 below shows the data for the UK economy in June 2023 (£billions).

Value of Exports	£66.35bn
Value of Imports	£71.14bn

[www.statista.com/statistics/284753/value-of-imports-and-exports-uk/](http://www.statista.com/statistics/284753/value-of-imports-and-exports-uk/)

- (a) Using the data provided, calculate the balance of trade and suggest whether it is in deficit or surplus.

Balance of Trade = £66.35bn – £71.14bn = –£4.79bn. The balance of trade is in a deficit of £4.79bn.

Award [1] mark for the correct answer and a further [1] mark for stating the balance of trade is in deficit.

(AO1 [1]; AO2 [1]) [2]

- (b) Explain one policy the UK government could use to correct the trade imbalance. [4]

To correct a balance of payments deficit, the UK government may:

- Use protectionist measures such as import tariffs to make imports more expensive than domestically produced goods. This aims to encourage consumers to buy local products and reduce imports, ultimately helping to address the balance of trade deficit.
- Use policies to reduce the price of domestic goods, such as fiscal, monetary or supply-side policies. Lower prices make domestic products more attractive, potentially boosting exports and reducing imports, which can correct the balance of trade deficit.
- Depreciate the value of the currency. This makes exports cheaper for foreign buyers and imports more expensive for domestic consumers. As a result, it can stimulate exports and discourage imports, thus helping to address the balance of trade deficit.
- Use fiscal or monetary policy to reduce spending in the economy. This reduction in spending can lead to decreased imports as consumers and businesses cut back on foreign goods and services, contributing to the correction of the balance of trade deficit.

Any other relevant answer will be accepted.

Allow [2] for a partial explanation and [4] for a full explanation.

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

**Section A**

AVAILABLE MARKS	
	6
<b>Section A</b>	<b>20</b>

Section B

AVAILABLE  
MARKS

4 (a) Explain what is meant by inflation.

Inflation is a general and sustained rise in the average price level over a period of time, usually a year. This leads to a fall in the real value of money over time.

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

(b) Using Fig. 1, describe what happened to the UK's inflation rate between 2014 and 2023.

Starting at 2% in 2014, inflation fluctuated between 0 and 3% until mid-2021. From then, it rose dramatically to an alarming peak of 11% in the last quarter of 2022—a rise of 9% since the end of 2021.

It fell back to 6.8% in July of 2023.

Allow [2] for identifying the main trends.

Allow [2] for data to back up the response, e.g. start rate/closing rate/difference.

Any other valid response will be credited.

(AO2: [4]) [4]

(c) Using the information, explain two costs of such high inflation on the economy.

- High inflation means that workers' real wages will fall if they do not keep up in line with inflation, which most did not. For example, if wages went up by 3% in 2022 and inflation went up 11% that year, workers were worse off by having an 8% cut in their real wages. This situation means they can afford fewer goods and services than before, leading to a declining standard of living. Workers face difficulties in maintaining their previous lifestyle due to reduced real incomes.
- In response to high inflation and the erosion of real wages, trade unions may resort to industrial action. This action is aimed at securing better pay and working conditions for their members to counteract the negative effects of inflation. While such actions may help in achieving fair wages for workers, they can also lead to temporary disruption in the economy.
- The Bank of England's traditional response to high inflation is to put up interest rates. High interest rates however have the adverse effect of increasing the cost of borrowing making it more expensive for households and firms to afford their mortgage and other loans, which can further erode their standard of living. Additionally, businesses may be discouraged from borrowing, leading to potential job cuts instead of job creation.

Any other valid response will be credited.

Allow [1] for identifying each cost and a further [2] for developing each explanation.

(2 × [3])  
(AO1: [1] × 2; AO3: [2] × 2) [6]

(d) Analyse two policies that could be used to reduce inflation.

AVAILABLE  
MARKS

Policy 1: Monetary Policy – Increasing Interest Rates

The government can employ monetary policy by raising interest rates to control inflation, particularly demand-pull inflation.

Increasing interest rates can be an effective tool to control inflation by reducing consumer spending and borrowing.

A potential fall in aggregate demand may lead to increased unemployment as businesses cut back on production and hiring.

Policy 2: Fiscal Policy – Raising Direct Taxes

Fiscal Policy involves the government raising direct taxes to reduce inflation, particularly cost-push inflation.

Raising direct taxes can effectively reduce cost-push inflation by curbing consumer spending.

Disadvantage:

A potential fall in aggregate demand can lead to unemployment and economic growth issues.

Policy 3: Supply-Side Policy

The government can employ supply-side policies to stimulate work and investment, thereby increasing aggregate supply and reducing inflation.

Supply-side policies can effectively reduce inflation by expanding aggregate supply, leading to lower prices.

A reduction in taxes may decrease government revenue available for public services and infrastructure.

Any other relevant answer will be accepted.

**Level 0 ([0])**

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

**Level 1 ([1]–[3])**

The candidate demonstrates some understanding of policies to reduce inflation, but these points are not developed. The quality of written communication is not developed.

**Level 2 ([4]–[6])**

The candidate demonstrates a reasonable understanding of two policies to reduce inflation and some of these points are reasonably developed. The quality of written communication is satisfactory.

**Level 3 ([7]–[8])**

The candidate demonstrates a thorough examination of two policies to reduce inflation, with most of the points being fully developed. The quality of written communication is of a high standard.

[8]

20

- 5 (a) (i) *Using Fig. 2, describe what has happened to global temperatures between 1980 and 2020.*

The key points in Figure 2 are:

- Overall there has been an upward trend.
- In 1980, the average temperature was just under 14.2°C but by 2020, 40 years later, it was just under 15.2°C. This is an increase of 1°C.

Any other valid response will be credited.

Allow [1] for identifying start value, [1] for identifying final value, [1] for identifying a decrease or increase and [1] for stating there is a general upward trend in temperature.

(AO2: [4])

[4]

- (ii) *Using the information, explain how climate change is an example of market failure.*

Market failure occurs when the price mechanism results in an inefficient or unfair allocation of resources. Climate change exemplifies market failure as the social costs, including the impact of extreme weather events outweigh the social benefits. The market does not account for these adverse consequences adequately.

Allow up to [4] marks for a clear and accurate explanation and allow [2] marks for a flawed or partial explanation.

(AO1: [2]; AO2: [2])

[4]

- (b) (i) *Define the term social cost.*

A social cost is the private cost plus the external cost. When the cost to society is greater than the cost to the individual of producing or consuming a good this creates a negative externality.

Allow up to [1] for a clear and accurate definition, allow [1] for a flawed or partial definition.

(AO1: [2])

[2]

- (ii) *Using information explain one social cost to the economy due to global warming.*

- Human migrations – global warming can make regions inhabitable causing people to migrate, this strains public services and infrastructure, leading to increased unemployment and social tension.
- Agriculture – global warming affects crop yields, leading to food insecurity. Higher food prices and the increased need for imports, place stress on consumers and governments, affecting overall stability.

Any other valid response will be credited.

Allow [1] for identifying each cost and a further [1] for developing each explanation.

(AO2: [1]; AO3: [1])

[2]

(c) Analyse two policies that the government can implement to correct market failure due to global warming.

**Taxation:**

Taxation aims to make polluters accountable by increasing the private cost of production and lowering output levels. This may involve taxes on petrol/diesel, landfill taxes, or air passenger duty.

This may be effective in internalising externalities by making polluters pay for their negative impacts.

This may be difficult in determining the appropriate tax levels and identifying major polluters.

**Legislation & Regulation:**

Regulation restricts output to socially optimal levels, with regulators monitoring and imposing fines on violators.

This may be relatively cost-effective enforcement through regulation.

This may be difficult in determining the socially optimal level of output, leading to potentially lenient or strict limits.

**Methods Employed to Encourage Positive Externalities:**

Providing grants and subsidies to firms lowers production costs, shifting the supply curve to the right, increasing output, and lowering market prices. Subsidies have been awarded to firms in the “green energy” sector to reduce reliance on fossil fuels.

This may be effective encourages the production of environmentally friendly goods and services.

There may be questions about the financing of grants and subsidies, considering the opportunity cost.

Any other relevant answer may be accepted.

**Level 0 ([0])**

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

**Level 1 ([1]–[3])**

The candidate demonstrates some understanding of policies government can implement to correct market failure, but these points are not developed. The quality of written communication is not developed.

**Level 2 ([4]–[6])**

The candidate demonstrates a reasonable understanding of policies government can implement to correct market failure and some of these points are reasonably developed. The quality of written communication is satisfactory.

**Level 3 ([7]–[8])**

The candidate demonstrates a thorough examination of policies government can implement to correct market failure, with most of the points being fully developed. The quality of written communication is of a high standard. [8]

**AVAILABLE MARKS**

20

**Section B**

**40**

6 (a) Define unemployment and explain how it is measured.

Unemployment refers to all those individuals who are willing and able to work but cannot find employment. According to the International Labour Organisation (ILO) definition, unemployed individuals are those without a job, have actively sought work in the past four weeks, and are available to commence employment within the next two weeks.

Unemployment in the UK is measured through two primary methods:

1. Claimant Count: This method is perhaps the simplest measure of unemployment. It encompasses all individuals without a job who qualify for and are receiving unemployment-related benefits (now referred to as Job Seeker's Allowance).
2. Labour Force Survey: To be categorised as unemployed under this measure, an individual must be without a paying job, available to commence employment within a fortnight, and have either actively sought work at some point in the previous four weeks or have been awaiting the commencement of a job they have already secured.

Any other relevant response will also be considered.

**Level 0 ([0])**

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

**Level 1 ([1]–[2])**

(AO1: [2])

The candidate demonstrates some basic understanding of the concept of unemployment and how it is measured, but this is poorly explained or developed. The quality of written communication is limited.

**Level 2 ([3]–[4])**

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

The candidate demonstrates a reasonable understanding of the concept of unemployment and how it is measured, but the explanation could be more fully developed. The quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

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

The candidate demonstrates a clear understanding of the concept of unemployment and how it is measured, and the explanation is fully developed. The quality of written communication is of a high standard. [6]

(b) *Explain three causes of unemployment.*

- Cyclical: This constitutes the primary cause of unemployment during economic recessions when there is insufficient aggregate demand for goods and services. The decline in demand for goods and services subsequently leads to reduced demand for labour since labour is a derived demand.
- Frictional Unemployment: This occurs when workers transition between jobs and spend some time searching for new employment opportunities.

Workers might experience short periods of unemployment as they leave undesirable jobs, seek higher-paying positions, relocate, or face redundancy or dismissal.

- Voluntary unemployment: People who deliberately choose not to work, because they do not like to work, or earn more on benefits, or prefer leisure time rather than employment.

Any other relevant response will also be considered.

### Level 0 ([0])

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

### Level 1 ([1]–[3])

(AO1: [1]; AO2: [2])

The candidate demonstrates some understanding of the causes of unemployment, but these points are not developed. The quality of written communication is limited.

### Level 2 ([4]–[6])

(AO1: [2]; AO2: [3]; AO3: [1])

The candidate demonstrates a reasonable understanding of the causes of unemployment, and some of the points are reasonably developed. The quality of written communication is satisfactory.

### Level 3 ([7]–[9])

(AO1: [3]; AO2: [4]; AO3: [2])

The candidate demonstrates a thorough explanation of the causes of unemployment, with most of the points being fully developed. The quality of written communication is of a high standard. [9]

- (c) *Examine the negative effects of unemployment on individuals and the economy as a whole.*

#### Impacts on Individuals

- **Loss of Income:** When individuals are unemployed, they aren't earning wages, leading to financial challenges. For instance, many may struggle to cover essential costs such as housing or utilities without regular income. This increases reliance on community support programs like the Northern Ireland Housing Executive or the Discretionary Support fund for short-term financial needs.
- **Psychological Impacts:** Unemployment can cause significant psychological distress. With the closure of large employers, such as the Ballymena Michelin factory in 2018, workers lost their jobs and workplace community, leading to increased stress and loss of social standing. This can exacerbate mental health conditions, an issue of growing concern for health services such as the Health and Social Care (HSC) in Northern Ireland.
- **Skill Erosion and Employability:** Long-term unemployment may result in losing skills, particularly relevant in Northern Ireland's evolving job market, where industries like digital technology are rising. Workers from traditional sectors, such as manufacturing, may find their skills less relevant, decreasing their employability without significant retraining or upskilling, for example, through programmes offered by Invest NI.

**Impacts on the Economy**

- **Consumer Spending:** Reduced consumer spending power due to unemployment affects local businesses. This is evidenced by decreased high street sales in towns across the UK, where consumer confidence is tied to employment levels.
- **Government Resources:** The UK government may have to allocate more resources to welfare benefits like Universal Credit to support the unemployed, straining the budget. This can lead to more significant fiscal deficits or reduced funding for other essential services, such as education or infrastructure projects.
- **National Productivity and Economic Growth:** The economy can suffer from unemployment through the loss of productive capacity, particularly in sectors that have historically driven growth. This is represented by a potential inward shift in the production possibility frontier.

**Level 0 ([0])**

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

**Level 1 ([1]–[5])**

(AO1: [1]; AO2: [1]; AO3: [3])

The candidate demonstrates some understanding of the negative effects of unemployment on individuals and the economy, but they are poorly developed or discussed. Quality of written communication is limited.

**Level 2 ([6]–[10])**

(AO1: [2]; AO2: [2]; AO3: [6])

The candidate demonstrates a good understanding of the negative effects of unemployment on individuals and the economy, with some being reasonably developed and discussed. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

(AO1: [3]; AO2: [3]; AO3: [9])

The candidate demonstrates a thorough understanding and evaluation of the negative effects of unemployment on individuals and the economy, with most being well developed and discussed. A reasoned conclusion is provided. Quality of written communication is of a high standard. [15]

30

7 (a) *Explain what is meant by an oligopoly.*

An oligopoly market exists where supply is dominated by a few large firms, each of whom has some control over the market.

In some cases, the four larger practices can hold monopoly power and impose excessive fees.

Oligopolies typically charge higher prices and limit consumer choice. This happens in the veterinary sector where large firms charge excessive fees. Any other relevant answer will be accepted.

**Level 0 ([0])**

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

**Level 1 ([1]–[2])**

(AO1: [2])

The candidate demonstrates some basic understanding of what is meant by an oligopoly, but this is poorly explained or developed. Quality of written communication is limited.

**Level 2 ([3]–[4])**

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

The candidate demonstrates a reasonable understanding of what is meant by an oligopoly, but the explanation could be more fully developed. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

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

The candidate demonstrates a clear understanding of what is meant by an oligopoly, and the explanation is fully developed. Quality of written communication is of a high standard.

[6]

(b) *Explain how businesses can compete using price and non-price competition.*

Price Competition:

- This involves competing to offer customers the lowest or best price for rival products. Cutting the price below that of a rival is one way to boost sales and market share.
- However, a firm's ability to do this will be constrained by market conditions and production costs. If demand is price inelastic, cutting price may not boost sales and may reduce profit margins.

Non-Price Competition:

This can include:

- New product development
- Product placements in different retail outlets and at trade fairs
- After sales care
- Promotional campaigns including advertising
- Attractive in store displays
- Running Competitions
- Consumer Loyalty cards
- This is important as customers do not just compare price. They are also looking for best value in terms of quality of the good or service, ease of

purchase, levels of customer service and whether there is good after sales care should anything go wrong and they want to exchange their product.

Any other relevant answer will be accepted.

### **Level 0 ([0])**

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

### **Level 1 ([1]–[3])**

(AO1: [1]; AO2: [2])

The candidate demonstrates some understanding of how businesses can compete using price and non-price competition, but these points are not developed. Quality of written communication is limited.

### **Level 2 ([4]–[6])**

(AO1: [2]; AO2: [3]; AO3: [1])

The candidate demonstrates reasonable understanding of how businesses can compete using price and non-price competition, some of the points are reasonably developed. Quality of written communication is satisfactory.

### **Level 3 ([7]–[9])**

(AO1: [3]; AO2: [4]; AO3: [2])

The candidate demonstrates thorough explanation of the effects of how businesses can compete using price and non-price competition most of the points are fully developed. Quality of written communication is of a high standard. [9]

#### **(c) Evaluate the impact of competition on producers and consumers.**

The Effects of Competition on Consumers:

1. **Reduction in Product Prices:** Firms often attempt to attract customers by offering lower prices compared to their competitors. This benefits consumers as it leaves them with more disposable income to spend on other goods and services, ultimately improving our standard of living. However, in highly competitive markets, individual firms may struggle to grow enough to benefit from economies of scale, which can lead to a lack of cost savings passed on to consumers through lower prices.
2. **Increased Product Choice:** When multiple companies operate in a market, consumers enjoy a wider selection of goods and services to choose from. This often includes various differentiated products. In the grocery sector, for instance, numerous supermarkets like Asda, Tesco, Sainsburys, and Dunnes compete for our custom.
3. **Enhancement in Product Quality:** Intense competition necessitates that only firms delivering high-quality goods and services survive in the marketplace. Firms facing minimal competition may lack incentives to maintain quality, potentially resulting in sub-standard products and services.
4. **Innovation:** Competition encourages firms to continually innovate, striving to outdo their rivals. For example, Apple and Samsung compete vigorously in the smartphone market, resulting in ongoing advancements. Nonetheless, it could be argued that larger firms in less competitive markets, such as monopolies, may generate more profits than smaller firms in competitive markets. These profits can fund research and development (R&D) projects leading to new innovative products and production techniques.

### The Effects of Competition on Producers:

1. **Development of Innovative Products:** Heightened competition compels firms to create new products, techniques, and ideas to stay ahead and gain a larger market share. For instance, new technologies are being developed to lower the costs of electric cars. Nevertheless, as mentioned earlier, less competitive firms often possess the financial resources for R&D and innovation.
2. **Enhanced Efficiency:** Only firms facing significant competition are pushed to achieve efficiency and produce where costs are minimal. In industries with substantial market power, there's less motivation to operate efficiently and implement cost-saving measures since firms can respond to higher costs by raising prices.
3. **Reduced Monopoly Power:** A pure monopoly exists when only one supplier operates in a market. Legal monopolies occur when a single firm controls 25% or more of a local or national market. Increased competition diminishes monopoly power and prevents firms from:
  - Delivering poorer service.
  - Exercising producer sovereignty by controlling consumers and imposing excessive prices.
  - Restricting output, which drives up prices.

#### **Level 0 ([0])**

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

#### **Level 1 ([1]–[5])**

(AO1: [1]; AO2: [1]; AO3: [3])

The candidate demonstrates some understanding of the analysis and evaluation of how competition affects producers and consumers, but the points are poorly developed or discussed. The quality of written communication is limited.

#### **Level 2 ([6]–[10])**

(AO1: [2]; AO2: [2]; AO3: [6])

The candidate demonstrates a good understanding of the analysis and evaluation of how competition affects producers and consumers, with some reasonably developed and discussed points. The quality of written communication is satisfactory.

#### **Level 3 ([11]–[15])**

(AO1: [3]; AO2: [3]; AO3: [9])

The candidate demonstrates a thorough understanding of the analysis and evaluation of how competition affects producers and consumers, with most points well developed and discussed. A reasoned and balanced conclusion is provided. The quality of written communication is of a high standard. [15]

30

**8 (a) What is the difference between direct and indirect taxation.**

Direct Taxes: Are taken directly from individuals & firms on their income and wealth. The burden falls on the person or firm responsible for paying it, e.g. income tax, corporation tax, NICs, capital gains tax, inheritance tax.

Indirect Taxes: Are expenditure taxes taken from us when we buy a good or a service, e.g. VAT, excise duty, customs duty.

This tax is normally a burden placed on producers but as far as possible they will pass it onto consumers in the form of higher prices.

Any other relevant answer will be accepted.

**Level 0 ([0])**

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

**Level 1 ([1]–[2])**

(AO1: [2])

The candidate demonstrates some basic understanding of the difference between direct and indirect taxation, but this is poorly explained or developed. Quality of written communication is limited.

**Level 2 ([3]–[4])**

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

The candidate demonstrates a reasonable understanding of the difference between direct and indirect taxation, but the explanation could be more fully developed. Quality of written communication is satisfactory.

**Level 3 ([5]–[6])**

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

The candidate demonstrates a clear understanding of the concept of the difference between direct and indirect taxation, and the explanation is fully developed. Quality of written communication is of a high standard. [6]

**(b) Explain the importance for the Government of avoiding a substantial budget deficit.**

There are a number of reasons why it is important for the Government to avoid having such a huge budget deficit.

1. Lenders may no longer want to lend to the UK: If the deficit is too high then lenders may become reluctant to lend to the Government meaning it can no longer finance its spending. This could affect the UK's credit rating.
2. Cost of Borrowing (interest rate) very high: If the government deficit is too high, the rate of interest it must pay may increase, especially the greater perceived risk of defaulting on the debt.
3. Opportunity cost of this borrowing: In the long run high levels of Government borrowing adds to the accumulated National Debt. This means the Government must spend more each year on debt interest to bond holders. There is a serious opportunity cost here because the money could have been used in more productive ways such as education, health or on infrastructure to drive economic growth.
4. Less for private sector to borrow: Rising government borrowing may mean that there are fewer funds available for the private sector to borrow.

5. Imposes a higher National Debt on future generations and all borrowing must be repaid: Future governments will have to repay the debt incurred by the current government and this may mean lower SOL for future generations. To repay debt the government may have to:
- A Cut spending levels, this may reduce the provision of merit or public goods, reduce the level of welfare payments available etc. and in doing so lower the economy's growth potential and possibly increase the number living in relative poverty.  
Increase the rate of taxation.
- B (i) Increasing the rate of income tax would mean that the disposable income of those in paid employment would fall. This may also have a disincentive effect on the workforce – employees may be reluctant to increase their working hours and others who are unemployed may be reluctant to accept paid employment.
- (ii) The government may also increase VAT or other indirect taxes. VAT is in essence a tax on spending and will be less politically controversial than an increase in the rate of income tax. However, raising VAT may lower consumer spending levels and so lower aggregate demand.

Any other relevant answer will be accepted.

#### Level 0 ([0])

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

#### Level 1 ([1]–[3])

(AO1: [1]; AO2: [2])

The candidate demonstrates some understanding why it is important for the Government to avoid having a huge budget deficit, but these points are not developed. Quality of written communication is limited.

#### Level 2 ([4]–[6])

(AO1: [2]; AO2: [3]; AO3: [1])

The candidate demonstrates reasonable understanding why it is important for the Government to avoid having a huge budget deficit, some of the points are reasonably developed. Quality of written communication is satisfactory.

#### Level 3 ([7]–[9])

(AO1: [3]; AO2: [4]; AO3: [2])

The candidate demonstrates thorough explanation of why it is important for the Government to avoid having a huge budget deficit, most of the points are fully developed. Quality of written communication is of a high standard. [9]

#### (c) *Evaluate the potential effects of changes in fiscal policy on economic growth and unemployment.*

##### 1. Resource Expansion

- Advantages: Encouraging Research and Development (R&D) through tax incentives can lead to the discovery of more abundant and higher-quality natural resources and job creation.
- Disadvantages: May raise environmental concerns due to relaxed regulations.
- Depends on: Effective environmental management and sustainable practices.

2. Investment in Infrastructure
    - Advantages: Increased government spending on infrastructure, such as roads, ports, rail links, and broadband, can attract local and foreign investments, fostering economic growth and job creation.
    - Disadvantages: Risk of budget deficits if not balanced with increased tax revenue.
    - Depends on: Efficient management of fiscal resources and the appeal of investment opportunities.
  3. Technical Advancements
    - Advantages: Lowering business taxes can incentivise technological investment and innovation, leading to job creation.
    - Disadvantages: Potential loss of tax revenue impacting public services and job losses.
    - Depends on: Striking a balance between promoting innovation and maintaining essential services.
  4. Human Resource Development
    - Advantages: Increasing education and training can enhance workforce productivity, while incentives like tax credits encourage more people to work.
    - Disadvantages: Questions arise about who bears the costs of grants, subsidies, and tax breaks. Lowering benefits may affect social support.
    - Depends on: Ensuring equitable distribution of costs and benefits.
- Any other relevant answer will be accepted.

Candidate in their evaluation may refer to conflict of objectives regarding economic growth.

**Level 0 ([0])**

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

**Level 1 ([1]–[5])**

(AO1: [1]; AO2: [1]; AO3: [3])

The candidate demonstrates some understanding of how changes in fiscal policy are likely to affect economic growth and unemployment, but they are poorly developed or discussed. Quality of written communication is limited.

**Level 2 ([6]–[10])**

(AO1: [2]; AO2: [2]; AO3: [6])

The candidate demonstrates good understanding of how changes in fiscal policy are likely to affect economic growth and unemployment, some are reasonably developed and discussed. Quality of written communication is satisfactory.

**Level 3 ([11]–[15])**

(AO1: [3]; AO2: [3]; AO3: [9])

The candidate demonstrates thorough understanding and examination of how changes in fiscal policy are likely to affect economic growth and unemployment, most are well developed and discussed. A reasoned and balanced conclusion is provided. Quality of written communication is of a high standard.

[15]

**Section C**

**Total**

**AVAILABLE  
MARKS**

30

**90**

**150**