



Rewarding Learning

**General Certificate of Secondary Education
2022**

Economics

Paper 2

[G9282]

FRIDAY 10 JUNE, AFTERNOON

**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.

COVID-19 Context

Given the unprecedented circumstances presented by the COVID-19 public health crisis, senior examiners, under the instruction of CCEA awarding organisation, are required to train assistant examiners to apply the mark scheme in case of disrupted learning and lost teaching time. The interpretation and intended application of the mark scheme for this examination series will be communicated through the standardising meeting by the Chief or Principal Examiner and will be monitored through the supervision period. This paragraph will apply to examination series in 2021–2022 only.

- 1 (a) Identify two ways in which the financial services industry contributes to the UK economy.

The financial services industry contributes to the UK economy in a number of ways which include:

- Creating over 1 million jobs, 3% of the UK's total employment
- Contributing £129 billion in output to the economy, approximately 10% of the total output
- Earning more from exporting financial services to the European Union (EU) than was paid for importing financial services – the trade surplus was £16 billion
- Paying £29 billion in taxation to the UK government

Allow [1] for identifying each contribution

(2 × [1])

[2]

(AO1)

- (b) (i) Using Table 1, identify the region where the financial services industry makes the largest contribution to the local economy. Explain your answer.

London is clearly the leading region in the UK for financial services accounting for nearly half, 49% of the industry's total output. It contributes £63.8 billion to the regional economy which is 15% of the region's output.

Allow [1] for identifying London, [1] for recognising the region's importance to the industry and [1] for the value of proportion of the region's economy

(3 × [1])

[3]

(AO1, AO2, AO3)

- (ii) Is the financial services industry important to the Northern Ireland economy? Explain your answer by comparing Northern Ireland with Scotland and Wales.

Financial services contribute £1.7 billion to the Northern Ireland economy and accounts for only 4% of the region's output. In Wales the contribution is 5% and in Scotland it is 7%, hence it could be concluded that the industry does not make a huge local contribution.

Allow up to [2] for describing the contribution relative to that in Scotland and Wales and [1] for justifying if it is important to the NI economy [3]
(AO1, AO2, AO3)

(c) *Using examples, explain two reasons why the financial services industry is regulated.*

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MARKS

In the UK, the government regulates industries and areas of economic activity because they are susceptible to market failure – the market mechanism may not work effectively or efficiently to ensure an equitable outcome for consumers and efficient allocation of resources. For example, the financial crisis demonstrated that the price of some financial products did not fully reflect the risks associated with their purchase. The financial sector is dominated by a relatively small number of large firms. The stimulus refers to the Big 4 which demonstrates low levels of competition in the market. The industry is regulated to:

- Protect consumers
- Keep the industry stable
- Promote healthy competition between providers in the interests of consumers

The source material refers to excessively high levels of profits and the FCA's ruling to compensate customers if they were mis-sold certain financial products.

Since the financial crisis of 2008, the government has been concerned about keeping the financial sector stable for the sound operation of the economy. Hence one of the FCA's roles is to ensure that banks operate within particular rules and regulations.

Level 0 [0]

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

Level 1 ([1]–[2])

The candidate demonstrates some understanding of why the financial services industry is regulated but this is poorly explained or underdeveloped. Quality of written communication is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of why the financial services industry is regulated 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 why the financial services industry is regulated, with good development. Quality of written communication is of a high standard. [6]

(AO1, AO2, AO3)

(d) (i) *What is the role of interest rates?*

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MARKS

The rate of interest is the reward for saving and the cost of borrowing. Borrowers are charged interest as a percentage of the sum of money they borrow so it is the cost of borrowing. Savers are rewarded with interest from banks. Savers need to be rewarded to encourage them to save, as it is this money banks will lend out to borrowers. Rates of interest on financial products usually change in line with changes in the Bank of England's base rate of interest. Interest rates can be used to attract savers or to limit borrowing.

Allow [1] for understanding that interest rates are the cost of borrowing or the reward for saving and allow [1] for development [2]
(AO1)

(ii) *Using the concept of risk and return, explain why there are different rates of interest for financial products. You should illustrate your points with examples.*

The stimulus material shows different rates of interest for a range of everyday financial products for borrowing and saving.

The rates of interest shown for borrowers vary considerably from:

- the lowest, the 3% fixed rate mortgage for two years for a large sum of money to buy a house,
- to the 1000% that can be charged by payday loan companies on relatively small sums of money of up to £1000 but more likely to be around £250.

A mortgage is sometimes described as good debt because the borrower will have had to apply for the mortgage and show evidence that they are capable of repaying it over the agreed term and at the agreed rate of interest. The lender will have a guarantee that the money will be repaid either in the form of insurance taken out by the borrower, or simply by holding on to the deeds of the property. Hence it is a secured loan with the risk assessed carefully and the lender is guaranteed that it will be returned. The rate of interest charged reflects the risk.

On the other hand, a payday loan is usually for a very short period of time, typically until the next 'payday'. Borrowers have a cash flow problem and this is an easy source of borrowing with the cash made available very quickly. These products are frequently used by lower income groups who may have a poor credit rating with other lenders or credit providers. Hence there is high risk associated with these loans for the lenders and it is common for penalties to be charged if the loan is not paid off on time, and for very high rates of interest to be charged on outstanding debt. Even with the high risk associated with these loans, providers have been heavily criticised in the media for taking advantage of poorer people by imposing onerous rates of interest on top of the loan that people on low income struggle to pay off and fall into spiralling debt. However, the law has been changed to stop such practice by the Payday loan companies and to provide more protection for those who get in to debt.

Low rates of interest on savings products, such as the ISA and the online saving account could be explained by the low base rate of interest.

Other relevant examples should be credited.

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MARKS

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[2])

The candidate demonstrates some understanding of the concept of risk and return to explain why interest rates vary on different financial products or services. One or two examples are used although there may be inaccuracies in the explanation or it is not well developed. Quality of written explanation is limited.

Level 2 ([3]–[4])

The candidate demonstrates a reasonable understanding of the concept of risk and return to explain why interest rates vary on different financial products or services. Relevant examples are used well to illustrate points. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of the concept of risk and return to explain why interest rates vary on different financial products or services. A range of relevant examples are used effectively to illustrate points. Quality of written communication is of a high standard.

[6]

(AO1, AO2, AO3)

- (e) *Discuss the possible impact of a **fall** in the Bank of England's base rate of interest on the UK economy.*

A fall in the base rate of rate of interest will have a number of effects on consumers, businesses and the economy as a whole. These include:

Consumers

- Rates of interest on borrowing, such as personal loans, and mortgages, will fall making them cheaper to repay and service hence increasing consumers' disposable income
- Rates of interest on savings products may also fall and with rates already very low, savers will only see a marginal benefit

Businesses

- Business loans are likely to cost less unless fixed rates have been agreed
- Business costs will fall and this will affect their overall operation, profit margins and possibly promote greater investment
- Workers may benefit if there is greater business investment leading to the creation of new jobs
- Firms' overall costs of producing goods are likely to fall and this could promote sales, especially those aimed at overseas markets

Economy as a whole

- Aggregate demand from consumers will increase due to the increase in disposable income hence demand for luxury goods in particular will increase
- Demand for imports may also rise which could have a negative impact on the Balance of Trade

- Other government objectives will be affected – lower interest rates would be expected to boost the economy and lead to an increase in employment, but it could also be inflationary
- Economic growth could increase as production and output may increase
- A lower rate of interest will lead to a fall in demand for the pound. If the pound depreciates. This should lead to an increase in exports

Credit should also be given if a candidate recognises that a fall in the base rate may have only a marginal impact.

Level 0 [0]

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

Level 1 ([1]–[3])

There is some understanding of the effects of a fall in the base rate of interest in general but the answer is not well developed. Quality of written explanation is limited.

Level 2 ([4]–[6])

Candidate demonstrates a reasonable understanding of the effects of a fall in the base rate of interest. Quality of written communication is satisfactory.

Level 3 ([7]–[8])

Candidate demonstrates a clear understanding of the effects of a fall in the base rate of interest. Quality of written communication is of a high standard.

(AO1, AO2, AO3)

[8]

AVAILABLE
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30

- 2 (a) (i) *Using the information in Table 3, calculate the difference between the government's income and spending for 2019–2020. Show your calculations.*

Spending £840.7 billion –£811.4 billion Income = –£29.3 billion
 Allow [1] for correct answer [1]
 (AO2)

- (ii) *What economic term describes this situation?*

Allow [1] for budget deficit [1]
 (AO1)

- (b) *Using Table 3, identify a tax that each of the following is likely to pay. You should identify a different tax for each.*

- (i) *Consumers*

Consumers are likely to pay a range of taxes on goods and services they purchase. The most common example is VAT but other valid answers include fuel duty. [1]

- (ii) *Workers*

Workers will pay income tax and national insurance contributions. [1]

- (iii) *Companies*

Corporation tax or business rates [1]
 (AO2)

- (c) *Using Table 3, explain 2 reasons why the government collects taxes.*

The government collects taxes for a number of reasons including:

- To raise money to pay for public services such as education, health and defence, respective allocations of public funds in 2019–2020 were £63.5 billion, £130.1 billion and £29 billion
- To redistribute income for example through the provision of benefits and transfer payments such as the state pension (allocated £101.3 billion)

Other reasons for collecting taxation are:

- To influence behaviour such as by taxing demerit goods such as tobacco
- To manage aggregate demand and stabilise the economy
- To correct market failure such as pollution by introducing taxes that support environmental objectives such as taxes on air travel

Allow [1] for each reason and [1] for development [4]
 (2 × [2])
 (AO1, AO2, AO3)

- (d) *Using Table 3, explain the possible impact on government income and spending of an increase in average life expectancy.*

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With people living longer, there are changing pressures on the government's finances. On the income side, older people will still be buying goods and services and paying indirect taxes such as VAT and excise duty. Their incomes will be smaller as they will be living on work and/or state pensions so their overall spending will be lower than for younger people. Therefore the amount of indirect tax they pay, will make only a modest increase to government income.

On the government spending side, older people are more likely to demand health services and the government will have to finance the state pension for a larger number of people. In 2019–2020, the state pension accounted for approximately 12% of overall public spending.

Other relevant explanation linked to the potential impact on government income and spending will receive credit.

Level 0 [0]

There is no content worthy of credit.

Level 1 ([1]–[2])

The candidate demonstrates some understanding of the impact of increased life expectancy on government income and spending. Quality of written explanation is limited.

Level 2 ([3]–[4])

The candidate demonstrates reasonable understanding of the impact of increased life expectancy on government income and spending but points are only partially explained and exemplified. Quality of written communication is satisfactory.

Level 3 ([5]–[6])

The candidate demonstrates a clear understanding of the impact of increased life expectancy on government income and spending and points are supported with relevant examples. Quality of written communication is of a high standard. [6]

(AO1, AO2, AO3)

(e) Explain the likely effect of each of the following events on the UK's national income.

(i) Consumer spending increases due to higher wages

If consumer spending increases due to higher wages, this is an injection to the economy and will result in increased aggregate demand and a boost to national income. The extent of the increase in national income will depend on how much of the additional spending is taxed, saved or spent on imported goods.

(ii) The government receives less income from tax receipts

If the government receives less income from tax receipts, this will affect their ability to spend on public services. A reduction in tax receipts and a reduction in government spending will be a withdrawal from the system and national income is likely to fall unless the government increases its borrowing to maintain the same level of spending. The overall effect depends on how much is injected back into the economy.

Allow [1] for demonstrating knowledge and understanding of each effect on national income and up to [2] for each explanation

(2 × [3])

[6]

(AO1, AO2, AO3)

(f) Discuss the effectiveness of two fiscal policy measures that the government could use to promote economic growth.

There are a range of fiscal policy measures that the government could use to either boost economic activity through reducing taxation, and/or increase their own spending in specific areas.

To increase aggregate demand and promote economic growth, the government could:

- Reduce income tax
- Reduce corporation tax and other business taxes
- Increase spending and investment on large scale projects such as hospitals and infrastructure
- Give public sector workers a significant pay increase
- Increase the levels of welfare benefits

The effectiveness of such measures will depend on the extent of the response on consumers, workers, employers and foreign investors.

Consumers could have more disposable income if income tax is reduced but depending on how the economy is performing, some may opt to save or pay more towards their mortgages, or increase spending on imports, such as taking more holidays abroad.

Lower corporation tax may promote greater investment by companies and attract new firms to set up in the UK, hence promoting output and employment.

The government could inject more money into the economy by planning big public sector projects but that will also depend on the state of public finances, and there may also be a political element. If the government injects finance in to the economy, there is an opportunity cost as finance may be redirected from increasing public sector pay or levels of benefits. The extent to which a government injection of finance boosts the economy may depend on whether it is additional finance or a reorganisation of existing finance.

The effectiveness of such measures will depend on the state of public finances, the economic conditions in the economy, the priorities of the government and whether they are in a position to redirect finances.

Level 0 [0]

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

Level 1 ([1]–[2])

The candidate discusses at least one fiscal policy measure but this is inadequately developed with little to no reference to economic growth. Quality of written communication is limited.

Level 2 ([3]–[5])

The candidate briefly discusses two fiscal policy measures. The discussion contains some relevant development about the impact on economic growth. Quality of written communication is satisfactory.

Level 3 ([6]–[9])

The candidate develops and thoughtfully discusses two relevant policy measures, including a reasoned and balanced analysis of their impact on economic growth. Quality of written communication is of a high standard. [9] (AO1, AO2, AO3)

Total

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30

60