

**GCSE (9–1)**

*Exemplar Candidate Work*

# ***ECONOMICS***

**J205**

For first teaching in 2017

**Component 2 (SAM)**

**National and International Economics**

Version 1

# CONTENTS

<b>CANDIDATE A RESPONSES</b>	<b>5</b>
Question 21a	5
Question 21b	5
Question 21c	6
Question 21di	7
Question 21dii	7
Question 21diii	8
Question 22a	9
Question 22b	10
Question 22c	11
Question 22di	12
Question 22dii	12
Question 22diii	13
Question 23a	14
Question 23b	15
Question 23c	16
Question 23di	17
Question 23dii	17
Question 23diii	18
<b>CANDIDATE B RESPONSES</b>	<b>19</b>
Question 21a	19
Question 21b	20
Question 21c	21
Question 21di	22
Question 21dii	22
Question 21diii	23
Question 22a	24
Question 22b	24
Question 22c	25
Question 22di	26
Question 22dii	26
Question 22diii	27
Question 23a	28
Question 23b	29
Question 23c	30
Question 23di	31
Question 23dii	31
Question 23diii	32

<b>CANDIDATE C RESPONSES</b>	<b>33</b>
Question 21a	33
Question 21b	33
Question 21c	34
Question 21di	35
Question 21dii	35
Question 21diii	36
Question 22a	37
Question 22b	37
Question 22c	38
Question 22di	39
Question 22dii	39
Question 22diii	40
Question 23a	41
Question 23b	42
Question 23c	43
Question 23di	44
Question 23dii	44
Question 23diii	45

# INTRODUCTION

We've asked students of different ability to sit our Unit J205/02- it J205/02 - National and international economics - Sample assessment material: <http://www.ocr.org.uk/Images/306380-unit-j205-02-national-and-international-economics-sample-assessment-material.pdf>

The sample answers in this resource have been extracted from the original candidate work to maintain their authenticity. They are supported by examiner commentary with approximate marks.

Please note that this resource is provided for advice and guidance only and does not in any way constitute an indication of grade boundaries or endorsed answers.

# CANDIDATE A

21a Explain two possible economic reasons why there has been a fall in demand for UK steel. [2]

- overseas competition, ~~at ~~other~~ other~~ other countries producing steel.  
- lower prices elsewhere

## Commentary on the answer

Neither answer clearly explains what has changed to effect the fall in demand so no marks are awarded.

0 marks

21b Calculate the average unemployment rate for Port Talbot between 2013 and 2015. Round to one decimal. You must show your working. [2]

$$8.9 + 6.9 + 6.9 = 22.7$$

Answer: 22.7

## Commentary on the answer

Both method and answer are not fully correct so no marks can be awarded.

0 marks

21c Analyse the likely effects of job losses on the town of Port Talbot. [6]

Job losses due to lack of demand caused cyclical unemployment. Firms respond to this by lowering output ~~and reducing~~ as there is lower AD. In the town of Port Talbot, this means lower employment rate. More being unemployed could lead to boredom and turn to the use of drugs and alcohol as they have nothing better to do. This stimulates crime meaning the crime rate of Port Talbot could be increased. People will have a lower income and need to claim benefits, reducing their standard of living and increasing costs of the government to pay for crime and benefits. [6]

### Commentary on the answer

A shaky start, wrongly identifying the type of unemployment as cyclical. The second sentence is not yet answering the question.

By the third sentence, the candidate begins to answer the question focussing on potential social issues. A good line of analysis for one effect is developed through a chain of reasoning.

In the final sentence, the candidate makes another good point, with a number of effects mentioned.

The only reference to the context is to mention the area by name. There is no use of the data. The answer is limited to level 2 due to the limited context and the good analysis being limited to one point.

Level 2, 4 marks

21di State two types of unemployment.

[2]

Seasonal  
voluntary

### Commentary on the answer

Two correct types.

2 marks

21dii Explain what is meant by fiscal policy.

[2]

Fiscal policy controls government  
spending, taxation & borrowing.

### Commentary on the answer

An accurate description of fiscal policy.

2 marks

21diii Evaluate the costs and benefits of fiscal policy as a means of achieving lower unemployment.

[6]

Increased government spending on ~~skills~~ education and training, would mean people have a wider set of skills and better qualifications, giving them more job opportunities and letting them produce a better quality of goods & services. This would lower unemployment as more people have the skills to work. <sup>Also</sup> Government spending on Job centres will give people means to be able to care employed. Lowering income tax would mean people have a higher disposable income and more money for goods & services. This means working will become more attractive as it would earn people more money than benefits. This would mean more people would work and be employed. <sup>[6]</sup> Lowering interest rates would also be effective as goods & services could cost less & people could buy & save more with their money.

CR 2016

J205/02

## Commentary on the answer

A sensible point in context with a number of links in the chain of analysis.

Another example of fiscal policy is mentioned although not explained.

Another example is explained with a number of links explainin how voluntary unemployment may be tackled.

The final suggestion is an example of monetary policy and so is not valid.

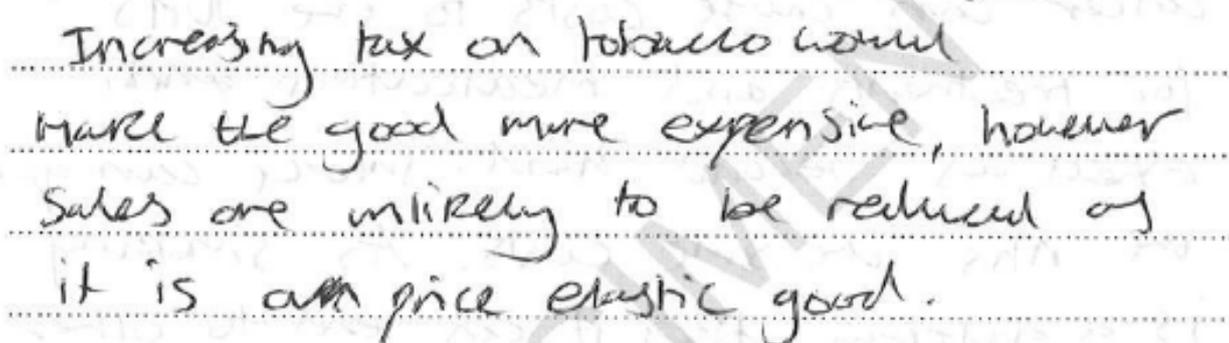
The answer is limited to level 1 due to the absence of any evaluative comments on the question - whilst benefits are covered, costs are ignored. The candidate would have been better to consider only two benefits and then consider the costs of these ideas. An overall evaluative conclusion should also have been included, perhaps using an 'it depends' comment.

Information is presented with some reasoning and some structure. Most but not all of the information is relevant.

Level 1, 2 marks

**22a Explain how a rise in tax on tobacco could affect the price and sales of cigarettes.**

**[2]**



Increasing tax on tobacco would make the good more expensive, however sales are unlikely to be reduced as it is a price elastic good.

## Commentary on the answer

One mark is gained for the first point made. The second point is rendered invalid by the incorrect reference to a 'price elastic' good.

1 mark

- 22b Using the information above, calculate the percentage of a packet of 20 cigarettes priced at £9.16 that accounts for tax. You must show your working. [2]

$$9.16 - 6.82 = 2.34$$

$$2.34 \times 20 = 46.8$$

$$9.16 \times 20 = 183.2$$

$$6.82 \times 20 = 136.4$$

$$46.8 + 136.4 \times 100$$

$$9.16 \div 6.82$$

$$\begin{array}{r} \times \\ 100 \end{array}$$

Answer: ..... 34.1% .....

### Commentary on the answer

Incorrect method and answer.

0 marks

22c

Analyse why smoking may cause negative externalities.

[6]

Smoking releases toxins into our bodies that are harmful and addictive. Smoking can cause lung cancer and also give off second hand smoke. These both reduce standard of living. Lung cancer can cause costs to the NHS for treatments and medication ~~such~~ as second hand smoke can give the NHS the same costs. As smoking is a gateway drug it can lead to other substances with even more risk and also increase crime rates putting people at risk and costing the government more.

### Commentary on the answer

Good knowledge and application of knowledge to the effects of smoking in terms of health, NHS and crime related costs with some analysis shown. The candidate could have improved their answer by explaining why this chain of events can occur ie the smoker only considers and weighs up their private costs and benefits and ignores third party spill over effects.

Level 2, 3 marks

22di State two areas of government spending in the economy.

[2]

1. education & training  
2. healthcare

### Commentary on the answer

Two valid areas given.

2 marks

22dii Explain the difference between direct and indirect taxation.

[2]

Indirect taxes are already included  
e.g. VAT & excise duty whereas direct  
taxes are given directly from a price [2]  
e.g. income tax.

### Commentary on the answer

No valid content.

0 marks

22diii

Evaluate costs and benefits of increasing taxation on tobacco products.

[6]

Putting higher taxes on tobacco products will make them more expensive meaning less people will be willing & able to afford as many, but as it is a price elastic good people will buy the product at any price because they are addicted. This could lead to bad effects as they use there money for cigarettes over necessary items. It could increase crime rates as people would turn to illegal means to get money for their cigarettes, or turn to stealing the tobacco products. Smuggling may occur from other countries where the cigarettes are cheaper which means there is money leaving the circular flow.

### Commentary on the answer

A reasonable chain of analysis although unfortunately the candidate has wrongly identified the elasticity as being 'elastic' rather than 'inelastic'.

The costs of increasing the tax are considered with some reasonable analysis.

Overall due to both sides being considered the piece is considered to show 'reasonable judgement'. The answer could be improved by correcting the error (related to elasticity) and adding a conclusion with a fully supported judgement.

This piece of work shows some structure with a line of reasoning in the first section. Information is relevant and generally logical.

Level 2, 4 marks

23a Calculate the balance of trade in goods and services. You must show your working. [2]

412472 - 292867  
= 119,605  
119,605 + 85,863 =  
Answer: 205,468

### Commentary on the answer

Units not shown; answer incorrect.

0 marks

- 23b In 2014 the USA imported goods from the UK worth 54,692 million US Dollars, USD (\$). Calculate the value in pounds, GBP (£). The exchange rate was 1 GBP = 1.5586 USD. Round to two decimals. You must show your working. [2]

$$54,692 \times 1.5586$$
$$35090.42$$

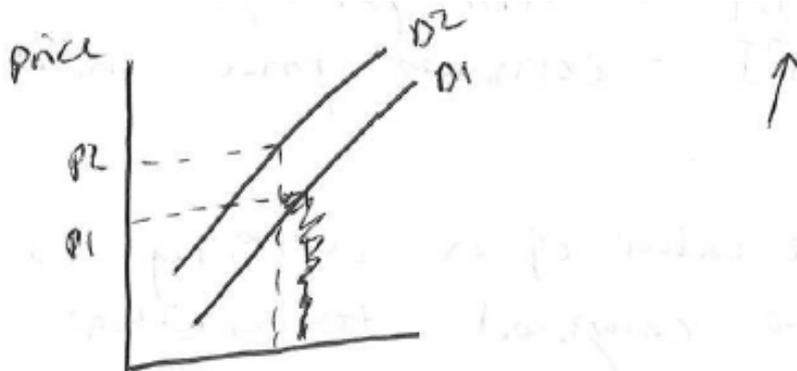
Answer: ~~£35~~ 35090.42 [2]

### Commentary on the answer

Units not used; incorrect answer given.

0 marks

23c Analyse, with the aid of a diagram, how an increase in demand for the pound (£) may affect its exchange rate. [6]



An increase of demand for the pound would make it stronger and it would become worth more against other currencies. This means it will have a higher exchange rate. Therefore it will be worth more so it will get more foreign currency for a higher pound than a lower pound.

### Commentary on the answer

Incorrect diagram.

The explanation is valid and correct with some basic explanation of the impact on the exchange rate and what this means. The answer could be improved by including a correct diagram and explaining how the outward shift in demand impacts the equilibrium price and thus the exchange rate.

Level 2, 3 marks

23di

State two ways of measuring how developed a country is.

[2]

GDG & GDP per capita  
CPI - consumer price index

### Commentary on the answer

The first answer is correct.

1 mark

23dii

Explain what is meant by a rise in the exchange rate.

[2]

The value of a currency is worth more compared to another.

### Commentary on the answer

Although simplistic the answer gains two marks as both the home currency and foreign currency are included.

2 marks

23diii

Evaluate whether a rise in the exchange rate would benefit the economy of a developed country. Use the information given in Extract 3 on page 14 and your own knowledge. [6]

If there is a rise in the exchange rate of a developed country, the country will get more for its exports as its currency is stronger against others. This means there is injections into the circular flow from exports, meaning economic growth.

### Commentary on the answer

0 marks

# CANDIDATE B

21a Explain two possible economic reasons why there has been a fall in demand for UK steel. [2]

Foreign countries producing cheaper steel due to cheaper labour.  
High transportation costs, as UK manufacturing has started to decline. [2]

## Commentary on the answer

Neither response gains a mark as the candidate has not answered the question as to why there has been a FALL in demand. Although responses are almost right, the candidate should have explained what has changed to result in a fall in demand; for example, the candidate could have elaborated on the second point to aid clarity by explaining that transportation costs between the UK and its main markets for steel had increased resulting in less sales abroad.

0 marks

**21b** Calculate the average unemployment rate for Port Talbot between 2013 and 2015. Round to one decimal. You must show your working. [2]

$$\frac{8.9 + 6.9 + 6.9}{3} =$$

7.56

Answer: ..... 7.6 %

### Commentary on the answer

Full marks for correct method and answer.

2 marks

**21c Analyse the likely effects of job losses on the town of Port Talbot. [6]**

If unemployment rises in Port Talbot, Morale due to not having a job will lower. This may increase the amount of mental illnesses such as depression as family members struggle to provide for their family. This therefore results in higher crime rates or alcoholic problems due to ~~an~~ increase in relative poverty in Port Talbot. Furthermore, this reduction in ~~low~~ <sup>the</sup> Port Talbot employment, and increase in crime rates may cause a downward multiplier effect, as businesses are less likely to invest in the area, thus increasing unemployment and crime rates in Port Talbot.

**Commentary on the answer**

Good knowledge and analysis with developed links through a chain of reasoning, explaining the knock on effects of lower morale.

A second chain of analysis is also developed.

The answer is set in the context of Port Talbot although only in a limited way, thus only 1 of the 2 application marks can be earned. The candidate could have improved their answer by referencing the data or referring to the steel industry.

Level 3, 5 marks

21di State two types of unemployment.

[2]

1. Structural
2. Cyclical

### Commentary on the answer

Full marks for two valid answers.

2 marks

21dii Explain what is meant by fiscal policy.

[2]

fiscal policy is ~~govern~~ the increase or  
reduction in government spending or taxation.  
expenditure

### Commentary on the answer

Reference is made to both government expenditure and taxation and thus full marks are gained.

2 marks

21diii

Evaluate the costs and benefits of fiscal policy as a means of achieving lower unemployment.

[6]

Increasing expansionary fiscal policy by increasing expenditure will increase investment in port Talbot, therefore encouraging other businesses to increase investment, therefore increasing employment in that town. The benefits of using fiscal policy to increase employment is that fiscal is a sharp tool, therefore resulting in specifically Port Talbot achieving lower unemployment, and not the whole of the UK, where companies would easily go elsewhere. However, a cost of fiscal policy is that there is usually a large delay in the effects of the policy, thus meaning Port Talbot would need to wait a long time before experiencing the true benefits of the fiscal policy.

### Commentary on the answer

A rather vague answer. Whilst there is an attempt at a chain of analysis, it is not clear what the policy actually is that the candidate is referring to - infrastructure spending? regional subsidies? There is an attempt at balance by suggesting there is a large delay but again why? This is not made clear. No conclusion is given. The candidate is therefore held back to level 1.

The candidate should have been specific in policy terms to demonstrate understanding of fiscal policy and been clearer on the costs of the policy. An overall conclusion, perhaps using an 'it depends' argument would have been useful.

The quality of written communication is reasonable; there is a logical structure to the writing but some of the information is ambiguous and lacks depth.

Level 1, 2 marks

- 22a Explain how a rise in tax on tobacco could affect the price and sales of cigarettes. [2]

If taxation on ~~the~~ tobacco increases, the total price of the product for the consumer would rise. This results in less people willing and able to purchase tobacco products, thus reducing sales [2] of tobacco included products, such as cigarettes.

### Commentary on the answer

Full marks for a concise and accurate answer.

2 marks

- 22b Using the information above, calculate the percentage of a packet of 20 cigarettes priced at £9.16 that accounts for tax. You must show your working. [2]

$$\frac{6.82}{9.16} \times 100 = 74.45414847$$

74.45%

Answer: ~~74.5%~~ [2]

### Commentary on the answer

Full marks for correct workings and answer.

2 marks

22c Analyse why smoking may cause negative externalities. [6]

When a cigarette is lit, not all of the smoke ~~is~~ released from burning to the product is inhaled by the first hand consumer, some is released off even after being breathed by a person, this second hand smoke is just as deadly as breathing it in first hand, therefore harming any person even without them wanting to smoke themselves. This second hand smoke causes them to eventually go into hospital if enough smoke has been breathed in for the multiple bad negative effects caused by smoking. The costs of to the second hand smoker are not accounted for by the first hand smoker, therefore, it is a negative externality.

### Commentary on the answer

The impact of smoking through secondary smoking is clearly explained on the health of individuals through developed links. The context of smoking is clearly understood and applied.

The key understanding as to WHY smoking causes negative externalities is given at the end. Had this come at the start and been more carefully explained (in terms of weighing up only private costs and benefits when making a decision), the candidate could have earned full marks.

Level 3, 5 marks

22di State two areas of government spending in the economy.

[2]

1. Defense
2. Education & training

### Commentary on the answer

Full marks for two valid answers.

2 marks

22dii Explain the difference between direct and indirect taxation.

[2]

A Direct taxation is a tax that is paid  
be straight from your income, without you ever seeing  
the money, whereas an indirect tax is taken from  
consumer, as it is on your spending.

### Commentary on the answer

One mark for a correct definition of direct tax; the candidate incorrectly states an indirect is taken from the consumer, when it is collected by the produce.

1 mark

22diii

Evaluate costs and benefits of increasing taxation on tobacco products.

[6]

One ~~cost~~<sup>benefit</sup> of increasing taxation on tobacco products would be that ~~as the price is~~<sup>\*</sup> the health of the smoker would increase, due to less deadly chemicals entering your lungs. This results in a reduction in costs for the NHS as less patients would enter with tobacco related illnesses. Another ~~cost~~<sup>benefit</sup> would be that as less smoke is released, due to less consumers buying tobacco products as the price is higher, this therefore increases the quality of the air pollution of a local area.

However, ~~the~~<sup>a</sup> cost of increasing taxation on tobacco products would be that it would be very in effective, due to tobacco being highly addictive, therefore making the products' PED highly inelastic, therefore meaning there would be very little change in demand for ~~the~~ tobacco products following a <sup>[6]</sup> change in price.

\* due to the higher price, and less people being willing and able to buy ~~cigarettes~~ tobacco products...

## Commentary on the answer

One valid point analysed in the context of tobacco products in the form of developed links

The second benefit is a little debatable

A well developed chain of analysis explaining a cost of the policy showing both sides have been considered.

The lack of a conclusion precludes level 3 being awarded.

The quality of written communication is clear, there is a clear structure with a valid line of reasoning on both sides of the argument with relevant and supported information.

Level 2, 4 marks

**23a** Calculate the balance of trade in goods and services. You must show your working. [2]

$$292\,867 - 412\,472 = -£119,605\text{m}$$

$$-£119,605\text{m} + £85,863 = -£33,742$$

Answer: .....£33,742m [2]

## Commentary on the answer

1 mark for the correct answer; the mark for working is lost as the candidate does not consistently use the correct units (ie millions).

1 mark

- 23b In 2014 the USA imported goods from the UK worth 54,692 million US Dollars, USD (\$). Calculate the value in pounds, GBP (£). The exchange rate was 1 GBP = 1.5586 USD. Round to two decimals. You must show your working. [2]

$$54692 \div 1.5586 = 35,090.4658$$

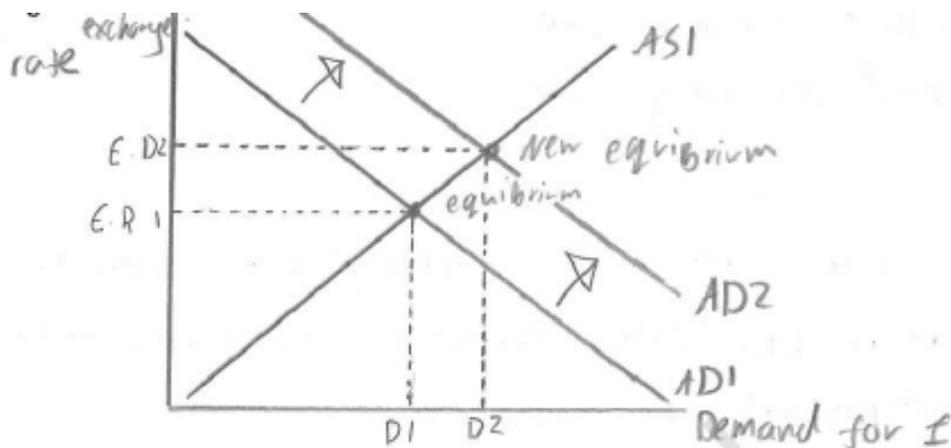
Answer: £ 35090.47 [2]

### Commentary on the answer

Both marks are lost as the candidate has not used the correct units - millions - either in the workings or the answer.

0 marks

23c Analyse, with the aid of a diagram, how an increase in demand for the pound (£) may affect its exchange rate. [6]



As demand for the £ rises from  $D_1$  to  $D_2$ , the quantity of available £ drop, increasing the pressure on demand, thus raising the exchange rate from  $E.R.1$  to  $E.R.2$ , as the value of the £ increases in terms to the terms of another other currencies.

## Commentary on the answer

Incorrect diagram – using AD/AS rather than D&S.

Inaccurately explains the mechanism by which the increasing demand affects price by suggesting that ‘the quantity of available pounds drop’. Does refer to the exchange rate and makes clear what the increase in price means for the exchange rate. Further marks could be gained by producing an accurate diagram, explaining what the increase in the exchange rate means and correcting the error to more accurately explain the upward pressure on price and an extension in supply.

Level 1, 2 marks

23dii State two ways of measuring how developed a country is.

[2]

1. Adult literacy rate
2. child mortality rate

### Commentary on the answer

Two reasonable measures.

2 marks

23dii Explain what is meant by a rise in the exchange rate.

[2]

A rise in the exchange rate means the value of one currency increasing ~~it~~ by comparison to another.

### Commentary on the answer

Clear understanding shown.

2 marks

23diii

Evaluate whether a rise in the exchange rate would benefit the economy of a developed country. Use the information given in Extract 3 on page 14 and your own knowledge. [6]

Whether or not a developed country benefits from a rise in exchange rates would heavily depend on whether they had a trade deficit or a trade surplus.

If a trade deficit was present, ~~the~~ a rise in imported goods & services would lead to an increase in withdrawals of money, due to cheaper imports, and so more demand for them. This would lead to a worsening of the trade balance, due to export revenue reducing (Appreciation makes exports expensive) and increasing ~~the~~ revenue on imports. Eventually, orders would stop giving to that country, which may cause a financial collapse due to over dependency on imported goods/services, which would mean it would be disastrous for ~~a~~ that country to have a rise in exchange rates.

However, if a country has a trade surplus, ~~the~~ cheaper imports and more expensive exports would lead to the trade balance getting even, and reducing inflationary levels, thus ~~making~~ making the economy better off, so therefore a rise in interest rates would be highly beneficial.

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## Commentary on the answer

An evaluative comment which is not particularly helpful.

This first paragraph is rather confusing and has a line of analysis almost in reverse order. However, there is some understanding relating to the impact of an appreciation on the price of imports and exports and their consequences for the trade balance. The answer could have been improved by going on to explain the impact on the overall economy in terms of consumers/producers; growth, employment and inflation.

The third paragraph is again confusing although it notes the possible impact on reducing inflation. The final sentence relates to a rise in interest rates rather than the exchange rate.

No overall evaluation is present nor is there any context given in relation to extract 3.

A line of reasoning is presented with some structure; however, it is not logically structured and is not supported with evidence.

Level 1, 2 marks

# CANDIDATE C

**21a** Explain two possible economic reasons why there has been a fall in demand for UK steel. [2]

Productivity is lower than other countries, meaning higher unit costs, and firms have to increase their prices, making British steel less competitive.

Markets are overseas, therefore transport costs are higher, meaning firms have to <sup>greater costs, and</sup> increase their prices, making British steel less competitive. [2]

## Commentary on the answer

Neither response gains a mark as the candidate has not answered the question as to why there has been a FALL in demand. Although responses are almost right, the candidate should have explained what has *changed* to result in a fall in demand; for example, transport costs have increased.

0 marks

**21b** Calculate the average unemployment rate for Port Talbot between 2013 and 2015. Round to one decimal. You must show your working. [2]

$$8.9 + 6.9 + 6.9 = 22.7 \quad \frac{22.7}{3} = 7.56$$

Answer: 7.6 [2]

## Commentary on the answer

Full marks for correct method and answer.

2 marks

21c Analyse the likely effects of job losses on the town of Port Talbot. [6]

Job losses may have resulted in ~~to~~ a higher unemployment, meaning lower average wages. This could have an affect on local business, as demand for their goods and services is reduced. This could mean that local businesses have to cut back their output and lay off workers, resulting in even higher unemployment in the Port Talbot area.

High levels of unemployment could result in an increase in alcoholism. This would put a greater demand on local NHS services due to illnesses related to alcoholism. This would mean that the government may have to spend more on NHS services in the Port Talbot area. However, this may have a positive effect by increasing new jobs for doctors and nurses.

In conclusion, job losses could be very bad for Port Talbot, as they may cause a downwards multiplier effect, reducing demand and output, but the extent depends on the level of government intervention.

[6]

## Commentary on the answer

Good analysis with a number of links in the chain of impact in the context of Port Talbot.

Another well explained point linked to the local scenario.

No conclusion required although the reference to the downward multiplier effect adds analysis to the first point.

Level 3, 6 marks

21di State two types of unemployment.

[2]

1. Cyclical
2. Frictional

### Commentary on the answer

Two valid answers.

2 marks

21dii Explain what is meant by fiscal policy.

[2]

Fiscal policy is the use of government spending and taxation to control the economy. For example, by raising ~~tax~~ income taxes, consumers will spend less on disposable income and spend less, reducing AD, since  $AD = C + I + G + X - M$ .

### Commentary on the answer

Full marks gained from the first half of the sentence. The example is not required.

2 marks

21diii Evaluate the costs and benefits of fiscal policy as a means of achieving lower unemployment. [6]

The government could increase spending on public services. This would increase AD (since  $AD = C + I + G + X - M$ ), which would result in higher output, as firms respond to the increased AD, meaning they will hire more workers to increase their output, reducing unemployment. However, ~~an~~ an increase in AD may cause price levels to rise, causing higher inflation.

Secondly, the government could cut income tax. This would increase consumer's disposable income, and therefore increase consumer spending. This would increase AD (since  $AD = C + I + G + X - M$ ) and therefore firms would hire more workers to produce goods and services to satisfy the greater demand, causing a reduction in ~~unemployment~~ unemployment. However, a reduction in income tax may cause consumers to save more, not spend it, and as a result, AD would not increase by as much.

In conclusion, the benefits of fiscal policy to achieve lower unemployment outweigh the costs, but depends overall on the prevailing economic conditions, as cutting income tax ~~does~~ <sup>leads</sup> ~~could~~ cause ~~the~~ greater consumer spending and the economy to overheat. [6]

## Commentary on the answer

A clear strong line of analysis given drawing on the scenario of fiscal policy; concluding with an evaluative comment.

A further example of fiscal policy explained - a little similar but still a good chain of analysis; with an alternative evaluative comment.

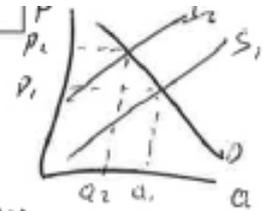
A rather simplistic conclusion is drawn but shows some judgement by considering the state of the economy at the time. For full evaluation marks a further evaluative point should be made perhaps linked to the type of unemployment to be tackled.

Overall the quality of response shows a well-developed piece which is coherent and logically structured.

Level 3, 5 marks

22a Explain how a rise in tax on tobacco could affect the price and sales of cigarettes. [2]

Extract 2: Tax on Tobacco



(a) Explain how a rise in tax on tobacco could affect the price and sales of cigarettes.

A rise in tax on tobacco would result in an inward shift in supply, as firms reduce production. This would result in a contraction in demand, and the quantity produced would reduce, ~~at~~ and pushing up the equilibrium price.

[2]

### Commentary on the answer

Full marks gained from the explanation; diagram is not required for a 2 mark question.

2 marks

22b Using the information above, calculate the percentage of a packet of 20 cigarettes priced at £9.16 that accounts for tax. You must show your working. [2]

£9.16

£6.82

$$6.82 \div 9.16 = 0.744541 \dots$$

$$\times 100 = 74.4$$

Answer: 74%

### Commentary on the answer

Full marks for correct method and answer.

2 marks

22c Analyse why smoking may cause negative externalities. [6]

Smoking can ~~cause~~ <sup>have</sup> harmful effects such as lung cancer. This ~~is~~ ~~the~~ ~~effect~~ means that people who smoke often demand NHS services. This can create a shortage of ~~the~~ medical treatment, if the number of smokers increases, meaning the government will have to spend more to satisfy the demand.

Also, smokers may ~~be~~ ~~less~~ ~~productive~~ be ill more regularly than non-smokers, so therefore they may be less productive. This means that ~~the~~ ~~company~~ ~~s~~ have increased unit costs, as they pay salaries even when they are not working due to illness. This increases the costs, which increases their price which may reduce their competitiveness.

### Commentary on the answer

Has explained the consequences of smoking on third parties; has implicitly understood but has not made explicit why these are negative externalities and the fact that these are ignored by the smoker. Due to the limited analysis of this the candidate is restricted to 3 marks.

Level 2, 3 marks

22di State two areas of government spending in the economy.

[2]

1. Education
2. Healthcare

### Commentary on the answer

2 correct areas given.

2 marks

22dii Explain the difference between direct and indirect taxation.

[2]

- Direct taxation is a tax that takes money directly from an individual or firm.
- Indirect tax is a tax on a good or service being provided.

### Commentary on the answer

First point too vague; 1 mark for second sentence. The answer could be improved by identifying that a direct tax is taken from income. The explanation given could relate to a direct or indirect tax.

1 mark

22diii

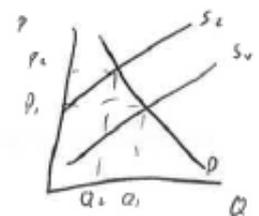
Evaluate costs and benefits of increasing taxation on tobacco products.

[6]

Increasing taxation on tobacco products may cause an inward shift in supply, as firms reduce their production. This may reduce the quantity traded, meaning less people buy tobacco products. This ~~may~~ may cause a reduction in people being admitted to hospital with smoking-related diseases, reducing strain on NHS services. This would mean that the government could reduce its spending on the NHS, saving money. Also, the government would make money from the tax itself, but this depends ~~however~~ on how price-elastic the demand is.

However, ~~possibly~~ if the demand is very price inelastic, people will still buy it, even if it costs them in future. This could result in ~~possibly~~ increasing poverty, as poor people would be hit the hardest.

In conclusion, the benefits outweigh the costs, as it will reduce strain on health services, and increase government ~~revenue~~ revenue; however, it could have the effect of increasing poverty depending on price elasticity.



## Commentary on the answer

First paragraph clearly analysed in context with a number of links in the chain of cause and effect.

An evaluative comment is made.

Costs are briefly considered although not well developed.

Reasonable evaluation - both sides considered with some judgement shown (paragraph 1). Has used 'depending on' but to improve this answer the candidate should develop this to say how.

Diagram included but not referred to so adds no value.

The answer is well-developed in places, with a detailed line of reasoning given in the first part. The work is coherent and logically structured. All aspects are relevant.

Level 3, 5 marks

**23a Calculate the balance of trade in goods and services. You must show your working. [2]**

$$292\ 867 - 412\ 472 = -119\ 605$$

$$85\ 863 + -119\ 605 = -33\ 742$$

Answer: ..... £-33,742 million [2]

## Commentary on the answer

Full marks for method and correct answer.

2 marks

- 23b** In 2014 the USA imported goods from the UK worth 54,692 million US Dollars, USD (\$). Calculate the value in pounds, GBP (£). The exchange rate was 1 GBP = 1.5586 USD. Round to two decimals. You must show your working. [2]

$$54\,692 \div 1.5586 = 35090.4658$$

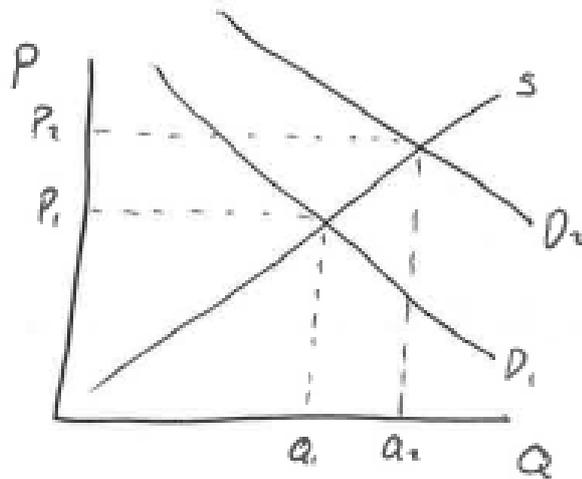
Answer: ..... £35,090.47 million [2]

## Commentary on the answer

Full marks for method and correct answer.

2 marks

23c Analyse, with the aid of a diagram, how an increase in demand for the pound (£) may affect its exchange rate. [6]



An increase in the demand for pounds ~~may~~ would result in an outward shift  
 in supply. This would cause an increase in quantity traded, <sup>from  $Q_1$  to  $Q_2$ .</sup> and an increase  
 in the exchange rate from  $P_1$  to  $P_2$  as the equilibrium has ~~increased~~ increased.

## Commentary on the answer

Accurate diagram.

Basic explanation of the diagram is given (although refers by mistake to an increase in supply rather than demand) but no direct reference is given to exchange rates and what the greater 'P' might mean. To improve the answer, the candidate should explain the implications of the increase in 'P' for the exchange rate.

Level 2, 4 marks

23di State two ways of measuring how developed a country is.

[2]

1. GDP
2. Life Expectancy

### Commentary on the answer

2 correct ways given.

2 marks

23dii Explain what is meant by a rise in the exchange rate.

[2]

A rise in the exchange rate is when the value of a currency increases compared to other currencies.

### Commentary on the answer

Full marks for correct explanation.

2 marks

23diii

Evaluate whether a rise in the exchange rate would benefit the economy of a developed country. Use the information given in Extract 3 on page 14 and your own knowledge. [6]

A rise in the exchange rate could cause exports to become more expensive. As a result, British exports will become less competitive, reducing sales. Also, imports will become cheaper, relatively. This combined could worsen the UK's balance of payments, and decrease AD (as  $AD = C + I + G + X - M$ ), causing a decrease in output and GDP.

However, it could be beneficial if the country is experiencing inflation, as this means <sup>the price levels</sup> ~~the inflation~~ will be reduced due to lower AD. This could help stabilise an overheating economy.

In conclusion, the costs of increasing the exchange rate could normally outweigh the benefits, as it would reduce GDP and maybe increase unemployment as firms lay off workers. However, it can be beneficial in certain cases.

## Commentary on the answer

Clear chain of analysis developing the implications of a rise in the exchange on both exports and imports and the consequent effect on the economy.

The alternative view is briefly explained.

The conclusion makes a clear judgement but shows understanding in that this is not always the case. It would have been helpful if the candidate had made explicit that the 'certain cases' includes a period of high inflation - although this can be inferred from paragraph 2.

Whilst this answer deserves level 3 from the perspective of analysis and evaluation; there is no application in relation to the context and is therefore held at level 2. To improve the answer, the candidate would need to make reference to Extract 3.

The quality of written communication is good. The line of reasoning particularly in the first section is detailed and well-developed. The work is coherent, logically structured and relevant.

Level 2, 3 marks



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