

# *The City School*

Unified Mid-Year Examination

2016 - 2017

CLASS 9

ECONOMICS

Paper 2 – Answer Key



**Q1.**

(a) Describe two features of a co-operative.

[4]

Candidates could mention:

- the idea of working together to share profits
- according to the amount that consumers had spent
- the co-operative exists for the benefit of its members
- the owners of a co-operative are the members
- this gives them voting rights
- but each member only has one vote
- many co-operatives stress the importance of social principles
- usually have limited liability

1 mark for a basic description of each feature and 1 mark for a development of the description of each feature.

Note: allow descriptions of different types of co-operatives.

Note: maximum of 4 marks. [4]

(b) Apart from a loyalty card, explain other ways in which small stores, such as those in Japan, can attract customers. [6]

Candidates could mention:

- price
- quality of service/opening hours
- extent of advertising
- location of store
- provision of delivery service

A list-like approach, which doesn't really provide very much of an explanation of the possible influences, can gain no more 3 marks.

For 6 marks at least two ways have to be explained.

Note: maximum of 6 marks. [6]

(c) Describe two differences between a partnership and a private limited company. [4]

Partnership:	Private Limited Company:
<ul style="list-style-type: none"><li>• between 2 and 20 people own and control the business</li><li>• relatively easy to set up</li><li>• a deed of partnership is usually written</li><li>• profits are distributed between partners</li><li>• unlimited liability (although there are some limited partnerships which do have limited liability)</li></ul>	<ul style="list-style-type: none"><li>• owned and controlled by the shareholders</li><li>• more complex to set up; certain legal documents are required</li><li>• profits distributed to shareholders through a dividend</li><li>• limited liability</li></ul>

(d) Explain features of a sole proprietor. [4]

- a business owned by one person (1)
- has unlimited liability (1)
- lack of continuity (1)
- takes all of the profits/bears all of the risks/losses alone (1)

(e) Describe the disadvantages of a sole proprietor business.

Sole proprietor:

[4]

- unlimited liability
- may be difficult to raise finance
- the business is owned by one person only, so decision-making cannot be shared
- requires a lot of skills from one person.
- Unincorporated business

A list-like answer can gain no more than 2 marks.

(f) Distinguish between the private sector and the public sector of an economy. [2]

Comment on the difference between government control and ownership and private control and ownership, public sector embraces goods/services and the provision of transfer payments, grants, subsidies, sources of finance. The two sectors have different aims and methods of working. [2]

(g) Discuss the disadvantages of allocating resources through the public sector. [6]

Discussion of bureaucracy, lack of incentive, inefficiency, lack of choice, lack of competition, possible political intervention. Identification of disadvantages up to 4 marks, discussion up to 2 marks per point. [6]

**Q2.** People often have an account with a commercial bank in which they deposit some of their money and from which they can pay their bills.

(a) What is Barter? Explain [2]

Barter is exchange of goods with goods, this was practiced before introduction of money and at the start of specialisation.

(b) Explain how commercial banks may encourage saving. [4]

Up to 2 marks for identification of any two ways:

a relatively high rate of interest

effective advertising/publicity/information

extension of branch opening hours

provision of Internet operation

details of the financial strength of the institutions

a compensation scheme to protect savers if a bank does collapse

provision of more saving schemes

increase in number of branches.

Up to 2 marks for explanation of any two points e.g.:

a high interest rate increases the reward from saving, increases the opportunity cost of spending/discourages spending, if the rate of interest is higher than inflation there is a positive real interest rate

advertising of saving schemes will make people more aware of e.g. range of saving opportunities

long branch opening hours will make it easier for people to deposit savings and to gain access to savings

internet access reduces the time taken to access savings/find out details of savings

awareness of strength of institutions/compensation schemes will increase people's confidence in saving

more saving schemes increase the chance of people finding one that will suit them

more branches will bring saving schemes closer to people.

(c) Identify and explain three functions of a central bank which differ from the functions of a commercial bank.

[6]

Identification (1) and explanation (1) of three functions of a central bank:

- bankers' bank
- lender of last resort
- government's bank
- note and coin issue
- management of the national debt
- possible determination of interest rates
- possible involvement in the determination of exchange rate.

Candidates can get 3 marks for the identification of 3 functions of a central bank, but no marks for identification of any functions of a commercial bank unless compared with the central bank.

No marks for an answer which relates to the functions of a commercial bank.

(d) Describe the functions of money.

[8]

A description of the functions of money:

- a medium of exchange
- a measure of value
- a store of value
- a standard for deferred payments.

A maximum of 2 marks for a list of all four functions.

A maximum of 1 mark for a list of three functions.

1 mark for the development of each function.

Q3.

(a) Define 'opportunity cost'.

[2]

Benefit from next best alternative (1) forgone (1)

(b) Explain why the economic problem can never be solved.

[4]

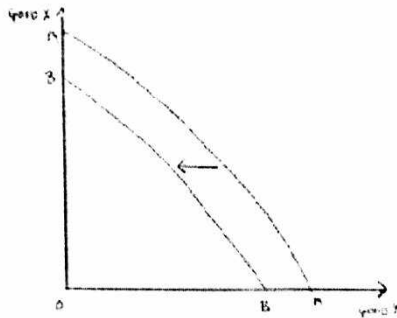
The economic problem is scarcity (1)

Infinite wants (1) finite resources (1)

- Wants exceed resources (1) as wants grow faster than resources / growth of resources will not exceed growth of wants (1)

(c) Using a production possibility curve diagram, analyse the effect of the destruction of some of its resources on an economy.

[6]



- Axes correctly labelled (1)
- Original curve/downward sloping line to axes (1)
- Original curve present (1)
- Shift to the left clearly indicated either by an arrow or by labelling (1)
- Up to 2 marks for written explanation:
- The destruction of resources will reduce the maximum output a country can produce (1)
- This will move the production possibility curve to the left / closer to the origin (1)

(d) Distinguish, using examples, between the different factors of production. [8]

Factors of production:

- i. Land: natural resources available for production, e.g. oil, coal, forests, fish, farming. Earning through land is rent.
- ii. Labour: human effort available for production/human capital, e.g. skilled/unskilled. Earning of labour is wages or salary.
- iii. Capital: man-made physical goods used in production, e.g. machines, tools, factories (Do NOT accept money). Capital earns interest.
- iv. Enterprise: the role of the entrepreneur in terms of organising the other factors of production and in taking a risk in doing so. Enterprise reward is profit

1 mark for each correct description (4); up to 2 marks for appropriate use of examples or minimum two features explained (2).

A list of 4 factors of production – 2 marks.

A list of 3 factors of production – 1 mark.

A list of 2 factors of production – no marks.

Q4.

(a) Define 'multinational company'. [2]

- a company that has its headquarters/is based in a country (1) but produces in a number of countries (1)

(b) Explain why a firm might wish to change from a private limited company to a public limited company. [4]

Explanation could include:

- be able to sell shares on stock exchange
- without needing permission of existing shareholders
- this would enable it to raise considerably more finance
- which could be used to finance expansion.

(c) Describe any three types of public sector organisations. [6]

The public sector is a major employer producer and consumer in many economies.

There are four types of public sector organizations

Central government authorities, local government authorities, government agencies and public corporations. Explanation with reference to their major responsibilities. Each carry to marks only list like answer secure no more than 3 marks.

(d) Discuss whether the establishment of a multinational company in a country will always be beneficial for all the workers it employs. [8]

Up to 6 marks for arguing that it will always be beneficial for all the workers it employs:

Up to 2 marks each for:

- it provides employment, avoiding someone being without a job (1), and this will increase incomes (1)
- employees will acquire skills/receive training (1) which will improve their employment/wage prospects generally (1)
- employees may receive discounts on the products that the company produces (1), saving them money (1)
- the employment will enhance living standards (1), especially if the firm pays wages above a country's minimum wage (1)
- results in higher government tax revenue (1) which could be used to improve education/health services benefitting workers

Up to 6 marks for arguing that it will not always be beneficial for all the workers it employs:

Up to 2 marks each for:

- the multinational company may decide to relocate to another country in the future (1), making the employee redundant (1)
- some jobs may involve very little skills (known as 'screwdriver jobs')/may bring in skilled workers from abroad (1), so the benefit of working for the multinational company can be exaggerated (1)
- employees may have had to work there for a minimum number of years (1) to take advantage of any discounts (1)
- the remuneration may only be equal to a country's minimum wage (1) and the large profits made by the company will then be repatriated to the home country and not invested in the firm, e.g. the facilities provided (1)
- for comments about poor working conditions (1) due to lack of trade unions to protect workers(1)
- the multinational company seeks to maximise profits and may forgo environment (1) putting health of workers at risk (1)

Maximum of 4 marks for a list or list-like answer



Q5.

(a) Describe the main features of public corporation [2]

it is owned/controlled by a government/is in the public sector

it is responsible for the day-to-day running of a business. [2]

(b) Discuss whether a country's largest commercial banks should be nationalised and so become public corporations, and taken under government control. [8]

Up to 6 marks for stating that they should be nationalised: Up to 2 marks: the government would be able to provide financial support (1) and so there would be less risk of the banks collapsing (1). Up to 3 marks: the government should do this because a collapse of some banks would undermine confidence in the whole financial system (1) and this could have damaging effects on the wider economy (1), e.g. making it difficult to obtain funds to finance investment (1). Up to 3 marks: the government would reassure customers (1) by guaranteeing that a bank would be safe and that nobody would lose any money (1), which would make customers more willing to deposit funds in a bank, which could then be lent out to people, increasing the level of demand in the economy (1). Up to 3 marks: the government may be more concerned with social costs and benefits/less motivated by profit (1), may provide banking services to the poor (1), protect jobs (1), charge borrowers a lower rate of interest and pay savers a higher rate of interest (1).

Up to 6 marks for stating that they should not be nationalised: Up to 2 marks: banks should be allowed to remain in the private sector (1) so that they are run in the most effective way possible (1). Up to 2 marks: the private sector will provide for more competition (1) and this should encourage them to aim to maximise profits (1). Up to 2 marks: it is logical in a market economy that an inefficient bank should be allowed to collapse (1) and then the scarce resources can be reallocated to a more productive use (1).

(c) Discuss how a government might influence private producers. [6]

A government can influence through taxation, subsidies, regulations, prohibitions, import quotas, training schemes, regulations on land use, building use. [8]

(d) Partnerships are owned by only two people while public companies are owned by the government.

Explain whether the above definitions are correct. [4]

Incorrect. Partnerships are not necessarily two people, they may consist of all the people working in the organisation. Public companies are not owned by the government. Public companies issue shares and are owned by the private sector

**Q6.**

(a) Explain the term 'public expenditure'. [2]

Public expenditures are done through government or government owned organization [1]. Can be classified as current or capital expenditures. [1].

(b) Describe the role of entrepreneurs. [4]

Possible points:

enterprise refers to business knowledge and the ability to run a production process

it is the quality which involves initiative to create and sell a product

entrepreneurs organise resources to make goods and services

they are the people who take the risks

they are the people who take the decisions necessary to make a firm run successfully.

(c) Describe the advantages of a market system. [6]

Advantages of a market system:

- resources are allocated through the price mechanism ('invisible hand')
- consumers said to be sovereign

- economy is very responsive to changes in consumer demand
- choice is provided for
- competition and the profit motive promote efficiency
- incentive for entrepreneurs to produce.

A maximum of 3 marks if only one advantage is described. Need at least two advantages for all 6 marks.

- (d) Many economies are mixed economies. Discuss why most countries have decided to have a mixed economy. [8]

Discussion of reasons for mixed economy in terms of disadvantages in market economies and difficulties and lack of choice in planned economies. Mixed economies theoretically allow choice and competition, yet deal with externalities and social costs and benefits. [8]

Q7.

- (a) Define 'mixed economy'. [2]

an economy with a private sector (1) and a public sector (1)

- a mix of both free market (1) and planned economies (1)
- resources allocated by both the price mechanism (1) and government decisions/consumers and government deciding what is produced (1)
- some prices determined by market forces (1) and some by directives/the government (1)

- (b) Explain two functions of a stock exchange. [4]

provides a market for the sale and/or purchase of shares (1) enabling firms to raise finance (1)

- allows members of the public to own part of a company (1) which may enable them to influence the behaviour of the company (1)

- provides a market for the sale of government securities (1) enabling governments to raise finance/borrow (1)
- enables firms to grow (1) by merging or taking over other firms (1)
- channels savings (1) for financial investment (1)
- acts as a source of information on share prices (1) enabling transactions to be carried out more effectively (1)
- protects buyers of shares/supervises brokers (1) as listed firms have to meet set standards and provide information (1)

(c) Explain three influences of a firm on the amount spend on capital goods. [6]

- the amount of profits earned (1) high profits provide the finance and incentive to invest (1)
- the size of the firm (1) large firms are able to finance large scale capital investment (1)
- the type of firm (1) e.g. a steel producing firm will use a higher value of capital goods than a flower seller (1)
- interest rates (1) low interest rates allow firms to borrow cheaply for investment (1)
- inflation (1) a low rate of inflation gives firms confidence to invest (1)
- economic stability (1) a stable economy gives firms confidence to invest (1)
- corporation tax (1) a lower rate of corporation tax provides the finance and incentive to invest (1)
- advances in technology (1) may encourage firms to replace existing machines (1)
- expectations (1) if firms anticipate selling more in the future, they may expand (1)
- price of labour (1) a rise in wages may cause firms to replace labour with capital (1)

(d) Analyze the characteristics of a good money. [8]

Brief explanation of any four

Acceptability, durability, portability, divisibility, scarcity