

**LRN International AS/A Level: Economics
(7141)**



Paper 1: Economics
(1 hour 30 minutes)

May/June 2024
Marking Scheme

Section A

Q1a) Explain possible effects of the minimum wage policy on the labour market in the short term. (2 marks)

Criteria: Understanding of basic labour market principles and ability to identify short-term consequences of the policy.		
Mark Band	Descriptor	Example
0 marks	No relevant response or incorrect effects identified.	"It will increase unemployment." without context or reasoning.
1 mark	Limited explanation, identifies a valid effect but lacks detail or clarity.	"Some workers may lose jobs because businesses can't afford to pay higher wages."
2 marks	Clear and accurate explanation, identifies one or more short-term effects with reasoning.	"The policy may lead to unemployment as businesses reduce hiring due to higher labour costs."

Q2a) Discuss factors that could influence the extent to which businesses adjust to the minimum wage policy. (4 marks)

Criteria: Ability to analyse various factors affecting business adjustments, including cost structures, market conditions, and workforce characteristics.		
Mark Band	Descriptor	Example
0 marks	No relevant response or incorrect factors identified.	"Businesses will just have to pay."
1-2 marks	Identifies some factors but lacks depth or connections to the policy.	"Businesses may cut costs or increase prices to adjust."
3-4 marks	Detailed discussion of multiple factors with examples and connections to the policy.	"Labour-intensive sectors might struggle more than capital-intensive ones, leading to layoffs or automation."

Q3a) Describe an unintended consequence of the minimum wage policy on the island nation's economy. (2 marks)

Criteria: Understanding of economic ripple effects and ability to identify a realistic unintended consequence.		
Mark Band	Descriptor	Example
0 marks	No relevant response or consequence identified.	"The economy will get better."
1 mark	Identifies an unintended consequence but lacks reasoning or detail.	"Small businesses might close down."
2 marks	Accurately describes an unintended consequence with clear reasoning.	"An increase in informal or 'under-the-table' jobs may occur as businesses avoid compliance."

Q4a) Analyse how the minimum wage policy could impact income distribution and poverty levels in the long term. (4 marks)

Criteria: Analytical understanding of income distribution and poverty concepts and ability to link these to the policy.		
Mark Band	Descriptor	Example
0 marks	No relevant response or incorrect analysis.	"It will fix poverty completely."
1-2 marks	Superficial analysis with limited insight into long-term impacts.	"It will reduce poverty but might cause job losses."
3-4 marks	In-depth analysis, balancing positive and negative effects with examples.	"While some low-income workers will benefit from higher wages, unemployment among unskilled workers may rise."

Q5a) Evaluate alternative government intervention that could achieve similar objectives as the minimum wage policy whilst minimising potential negative effects on businesses.

(4 marks)

Criteria: Ability to evaluate alternative policies and their relative merits and drawbacks.		
Mark Band	Descriptor	Example
0 marks	No relevant response or alternative intervention identified.	"The government should stop intervening."
1-2 marks	Identifies an alternative but lacks evaluation or detail.	"Subsidising businesses could work better."
3-4 marks	Evaluates one or more alternatives with clear reasoning and examples.	"Tax credits for low-income workers could reduce poverty without raising labour costs for businesses."

Q6a) State methods that businesses might use to cope with the increased labour costs resulting from the minimum wage policy.

(2 marks)

Criteria: Knowledge of cost-management strategies and their application to the scenario.		
Mark Band	Descriptor	Example
0 marks	No relevant response or methods identified.	"Businesses will cope."
1 mark	Identifies one valid method but lacks explanation.	"Businesses will cut costs."
2 marks	Identifies and explains two or more methods.	"Businesses might automate tasks or reduce non-essential expenditures to manage costs."

Q7a) Assess the likely impact of the minimum wage policy on the island nation's inflation rate and overall price level. (4 marks)

Criteria: Understanding of inflationary pressures and their link to wage policies.		
Mark Band	Descriptor	Example
0 marks	No relevant response or impact identified.	"Prices won't change."
1-2 marks	Partial assessment with limited analysis or connections to inflation.	"Prices might go up because wages are higher."
3-4 marks	Thorough assessment with clear links between policy, costs, and inflation.	"Higher wages could increase production costs, leading to higher prices if businesses pass on the costs to consumers."

Q8a) Compare and contrast the effects of the minimum wage policy on the island nation's GDP growth rate. (4 marks)

Criteria: Ability to compare potential positive and negative effects on GDP growth, supported by analysis.		
Mark Band	Descriptor	Example
0 marks	No relevant response or effects identified.	"GDP will just grow or fall."
1-2 marks	Limited comparison, identifies either positive or negative effects but lacks balance or depth.	"Higher wages might increase GDP, but businesses might reduce output."
3-4 marks	Balanced comparison of both positive and negative effects, supported by reasoning and examples.	"Increased wages may boost consumption and GDP in the short term, but higher costs could reduce investment and slow long-term growth."

Q9a) Explain how the minimum wage policy could affect the competitiveness of the island nation's exports in the global market. (4 marks)

Criteria: Understanding of cost competitiveness and its impact on export performance.		
Mark Band	Descriptor	Example
0 marks	No relevant response or effects on exports identified.	"Exports will stay the same."
1-2 marks	Limited explanation, identifies an effect but lacks clarity or depth.	"Exports might decline because goods become more expensive."
3-4 marks	Clear and detailed explanation with links between wages, production costs, and export competitiveness.	"Higher wages increase production costs, raising export prices and reducing competitiveness, especially in labour-intensive industries."

Q10a) Discuss potential factors that could limit the effectiveness of the minimum wage policy in reducing income inequality on the island nation. (4 marks)

Criteria: Ability to identify and discuss factors that hinder the policy's effectiveness in achieving its goals.		
Mark Band	Descriptor	Example
0 marks	No relevant response or factors identified.	"It will always work."
1-2 marks	Identifies one or two factors but lacks depth or detailed discussion.	"Unemployment might still happen."
3-4 marks	Comprehensive discussion of multiple factors, including structural and behavioural challenges.	"The policy may not cover informal sector workers, and higher unemployment could worsen inequality among the lowest-skilled workers."

Q11a) Analyse potential challenges that small businesses might face in complying with the minimum wage policy. (6 marks)

Criteria: Analytical understanding of challenges specific to small businesses, with connections to economic and operational factors.		
Mark Band	Descriptor	Example
0 marks	No relevant response or challenges identified.	"They will adjust."
1-2 marks	Identifies one or two challenges but lacks analysis or detailed reasoning.	"Small businesses might struggle to pay higher wages."
3-4 marks	Provides some analysis, identifies multiple challenges with limited depth.	"Small businesses with tight budgets may cut hours or reduce their workforce."
5-6 marks	Thorough analysis of multiple challenges, supported by examples and clear links to small business operations.	"Small businesses with narrow profit margins may face closures, reduced investments, or an inability to compete with larger firms that can absorb higher labour costs."

Section B

Q1b) Explain the concept of price elasticity of demand.

(4 marks)

Criteria: Understanding of the concept, including definition, formula, and factors influencing it.		
Mark Band	Descriptor	Example
0 marks	No relevant response or definition provided.	"It is about prices."
1-2 marks	Provides a basic definition but lacks clarity, depth, or examples.	"It shows how demand changes with price."
3-4 marks	Clear definition, includes formula and key factors affecting elasticity, with an example.	"Price elasticity of demand measures the responsiveness of quantity demanded to a change in price. It is calculated as % change in quantity demanded divided by % change in price. For instance, luxury goods tend to have higher elasticity than necessities."

Q2b) Evaluate the impact of a decrease in government spending on a country's economy, considering its effects on aggregate demand, unemployment, inflation, and economic growth.

(6 marks)

Criteria: Ability to evaluate the macroeconomic impacts of reduced government spending on key indicators with balanced analysis.		
Mark Band	Descriptor	Example
0 marks	No relevant response or understanding of government spending or macroeconomic impacts.	"The economy will shrink."
1-2 marks	Limited evaluation, identifies some impacts but lacks depth or balance.	"Reduced spending will lower aggregate demand and increase unemployment."
3-4 marks	Provides a clear evaluation of impacts on at least two indicators, with partial analysis or limited examples.	"A decrease in spending reduces aggregate demand, potentially increasing unemployment. Lower demand could also reduce inflationary pressures."
5-6 marks	Comprehensive evaluation, considers effects on all four indicators with balanced analysis and examples.	"A reduction in government spending decreases aggregate demand, leading to higher unemployment and slower economic growth in the short term. However, it may lower inflation if

		demand-pull inflation was a concern. The long-term impact depends on whether private sector activity compensates for reduced public expenditure."
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Q3b) Judge the causes and consequences of income inequality within an economy.

(10 marks)

Criteria: Depth of understanding of income inequality causes and consequences, supported by analysis and examples.		
Mark Band	Descriptor	Example
0 marks	No relevant response or understanding of income inequality.	"Some people earn more."
1-3 marks	Basic identification of causes or consequences, with minimal explanation.	"Income inequality can be caused by different wages in jobs."
4-6 marks	Identifies several causes and consequences with some explanation, limited depth or examples.	"Causes include differences in education levels, skills, and opportunities. Consequences can include reduced social mobility and higher crime rates."
7-10 marks	Thorough analysis of multiple causes (e.g., structural, social, economic) and consequences, with balanced judgment and examples.	"Income inequality arises from factors such as unequal access to education, technological changes favouring skilled workers, and globalisation. Consequences include lower aggregate demand due to reduced purchasing power, increased social tensions, and potential political instability. However, some argue inequality can incentivise innovation and investment."