



Section 1 Introduction to economics

1.1 Main economic groups and factors of production

Practice questions

- 1 Consumers weigh up the benefits they would gain [1 mark] against the price of the product [1 mark].
- 2
 - a Governments make rules/regulations to affect people in order to benefit society as a whole [1 mark]. Reference to: preventing irresponsible behaviour; or to allow poorer people etc. to benefit at the expense of richer people (taxes and benefits); or education/health etc. which people might not consume otherwise [1 mark].
 - b Governments make rules/regulations for producers so production methods do not harm society/harm society less [1 mark]. Reference to limiting pollution; or safety at work, etc. [1 mark]. Alternatively the answer could focus on taxation: Governments increase taxes so as to raise money [1 mark] to support new industries, innovation, etc. [1 mark].
- 3 This is where one group responds to the actions of another group [1 mark]. Consumers, producers and government are all linked in deciding how resources are used [1 mark].
- 4 Any four from: food; trees/wood; oil; coal; any minerals, e.g. gold; fish etc. [4 marks].
- 5 The quality of labour can be improved through better education and training [1 mark]. This could increase their skills [1 mark]. Also allow: The quality of labour can be improved by providing education [1 mark] as those who can read etc. will be more productive etc. [1 mark]; or by providing healthcare [1 mark] because this leads to healthier people – more able to work etc. [1 mark]
- 6 Any four from: machinery; computers etc. used in production; tools; trains; lorries; buildings used for production; roads; electricity grid etc. [4 marks].
- 7 Enterprise is the organising of the three other factors of production to make goods and services [1 mark]. It involves the entrepreneur taking the risk [1 mark].
- 8 The answer will depend on the business you have chosen. An example would be: farming used to involve a lot of labour with many jobs being done by hand [1 mark]. Nowadays, technology means that crops can be gathered by machines with fewer people involved [1 mark].

Exam-style questions

- 2 The role of consumers is to buy the goods and services which are produced [1 mark]. Their decisions on what to buy will then tell producers what to produce [1 mark].

1.2 The basic economic problem

Practice questions

- 1 Any four from: land; housing; doctors or any other such group – you can have a maximum of two groups of workers; oil or any other minerals etc. up to a maximum of two; any other sensible suggestion [4 marks].
- 2 Needs are what you have to have to survive, e.g. food [1 mark]. Wants are unlimited and include anything people would like even if they have no money for them, e.g. an Aston-Martin car [1 mark].



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- 3 a** One example is that the government provides vaccinations free directly to consumers [1 mark] because it wants, for example, children not to catch measles [1 mark].
- b** The private sector decides what cars to produce [1 mark] in response to consumer demands [1 mark].
- 4 a** One example is that the government intervenes in the transport industry [1 mark] to limit the number of hours drivers can work and specify the breaks they must take [1 mark].
- b** Producers look to produce goods and services at the lowest possible cost [1 mark] with the minimum waste [1 mark].
- 5 a** One example is that the government provides free education to people under 19 [1 mark] as the private sector could not do so [1 mark].
- b** The private sector provides goods to those who are willing [1 mark] and able to pay for them [1 mark].
- 6** 1 mark for the situation plus a link to opportunity cost [1 mark], e.g. I had £20 in my pocket [1 mark]. When I spent this on a meal I was unable to buy the new book I wanted [1 mark].
- 7 a** It is the best use of resources in order to create growth or development for a country, firm or individual [1 mark], both now and into the future [1 mark].
- b** Marks to be awarded only for the economic sustainability benefits. An example is: The Elizabeth railway line has been built from Reading to Shenfield. It has created jobs in its construction as well as creating future jobs in its operation [1 mark for one aspect of economic sustainability]. This will reduce unemployment and generate more tax revenue for the government [1 mark].
- 8 a** It is the impact of development or growth that promotes an improvement in the quality of life for all [1 mark], now and into the future [1 mark].
- b** Marks to be awarded only for the social sustainability benefits. An example is: The government is improving the A66 between Scotch Corner and Penrith. This will allow both people and goods to move more freely across the country, relieving congestion [1 mark]. It could also boost tourism and job creation in areas such as the North York Moors, the Yorkshire Dales and the Lake District [1 mark].
- 9 a** It is the impact of development or growth where the effect on the natural world is small and possible to manage [1 mark], now and into the future [1 mark].
- b** Marks to be awarded only for the environmental sustainability benefits. An example is: There is a plan to build Sizewell C nuclear power station. This would be much cleaner [1 mark] than coal- or gas-fired power stations, helping to reduce climate change [1 mark].
- 10** Renewable resources are those which can be replaced (in the long run) when used, e.g. trees to provide wood [1 mark]. Non-renewable resources are those which, once used, cannot be replaced, e.g. oil [1 mark].

Exam-style questions

- 3** The economic problem is that resources are insufficient to meet the unlimited wants of people. This means that there is a gap between the limited amount of resources and the unlimited wants for them [2 marks]. If you only write 'scarce resources and unlimited wants', i.e. with no explanation, then you would get 1 mark.
- 4** Possible content (other points may be equally acceptable):
- Shorter driving times
 - More people will come to the county



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- Benefits such as more employment so people can have a higher living standard
- More income for the county council through rates, parking etc., so they can provide better facilities for people
- Better quality of life for road users in the county
- Noise and air pollution for the villagers
- Takes more land from the countryside/reduces land for the village

Note: the question asks you to evaluate the impact on *social* sustainability, so there is no credit for economic or environmental points.

In the exam the marks are awarded in 3 levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Copwar or the A999, the maximum you can gain is 5 marks.



Section 2 The role of markets and money

2.1 The role of markets

Practice questions

- 1 Any three for 3 marks:
 - A physical market
 - A shop
 - An auction
 - Through the internet
 - By telephone
 - Through a catalogue
- 2 1 mark for a very short description, e.g. 'a physical market has stalls'; 2 marks for a clear description, e.g. 'In a shop the seller is the owner or an assistant and the buyer is the customer.'
- 3 Resources for education are distributed through the state (or government or local authority etc.) directly to the school, university etc. The private sector can also run education, in which case resources are distributed by market forces [2 marks for identifying both government and private sector; 2 more marks for briefly explaining/developing each: maximum 4 marks].
- 4
 - a 1 mark for any of: agriculture; forestry; mining; oil and gas extraction; quarrying; or fishing.
 - b 1 mark for any example of manufacturing or construction.
 - c 1 mark for any of: finance; retailing; tourism; entertainment etc.
- 5 Construction is the taking of raw or semi-raw materials [1 mark] and converting them into a manufactured building etc. [1 mark].
- 6 1 mark for any of: producers; entrepreneurs; firms.
- 7 1 mark for any of: households (consumers); other firms; government/public sector.
- 8 The factor market supplies resources, while the product market turns them into products [1 mark for basic knowledge]. 1 more mark for a basic example. A good example, e.g. 'Households supply labour to producers who pay them wages (factor market), which they then spend on products (product market)', would be worth 2 marks.
- 9 If you concentrate on what you are better at than someone else, you will give up what you are not so good at, which is the opportunity cost [2 marks]. A definition of opportunity cost is worth 1 mark.
- 10 You hand over money, which you have, and in exchange you get a cup of coffee, something you wanted, but did not have [2 marks].

Note: for questions 11–14 there is only 1 mark in each case if the answer is a *list* of benefits or costs and not a *description*.

- 11 The following is one possible answer:

Bigger markets mean that producers can achieve bigger sales and hopefully profits. Bigger markets will also allow them to gain larger economies of scale, reducing cost per unit. Thirdly, bigger markets will allow them to produce a larger quantity [3 marks, 1 for each point described].



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Also allow: Bigger markets lead to greater specialisation, leading to more profits etc.; or lead to improved quality as better equipment could be used to produce more.

- 12** There are three possible costs of boredom. The first is that they become demotivated and may thus earn less money. The second is that they become deskilled because they cannot be bothered to keep up with change. Lastly, the second one could lead to unemployment as they do not have the necessary skills for the new jobs [3 marks].
- 13** Infrastructure development means that transport links will be better and faster so that goods and people can be moved more easily, thus enhancing output and growth of the region. It will also lead to external economies of scale for existing industry, leading to its growth [3 marks].
- 14** If a country becomes over-dependent this means that it depends on a very narrow range of goods for export while relying on only one or a few suppliers. If the world situation changes, the country may find it difficult, e.g., to get supplies of raw materials, food etc. It may also not be able to sell its products if demand changes [3 marks].

Note: over-dependence is not just about getting supplies from, but also about selling products to, other countries.

15 Benefits and costs for countries

Benefit 1: Economies of scale as specialisation means countries produce what they are best at.

Benefit 2: More jobs as greater output will mean more demand for labour.

(Also allow: International trade, improved standard of living, and more government revenue.)

Cost 1: Unemployment as specialisation means some jobs are lost to other countries.

Cost 2: Negative externalities as increased production can lead to more pollution and greater loss of open countryside.

(Also allow: Over-exploitation of resources.)

Benefits and costs for producers and workers

Benefit 1: Higher quality as best and most suitable factors can be used.

(Also allow: Higher output, higher productivity, bigger market, economies of scale, time saving.)

Benefit 2: Workers can become more skilful in and knowledgeable about their work

(Also allow: Natural strengths, increased job satisfaction, increased standards of living.)

Cost 1: As output rises costs will eventually also rise as resources become shorter in supply.

(Also allow: Dependency, failure of exchange, movement of workers.)

Cost 2: By doing the same job every day workers can become bored and demotivated.

(Also allow: Deskilling, unemployment.)

1 mark for each correct benefit and cost, plus 1 mark for some development regarding why it is a benefit or cost.

Exam-style questions

- 2** Production of goods involves using raw materials to make either a finished good for sale or a part for another good. Production of services involves people dealing directly with other people [1 mark for each correct explanation].



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- 3 Factor markets are where the **services** of each factor of production are bought and sold. The product market is where goods and services are sold to consumers, businesses etc. [2 marks].

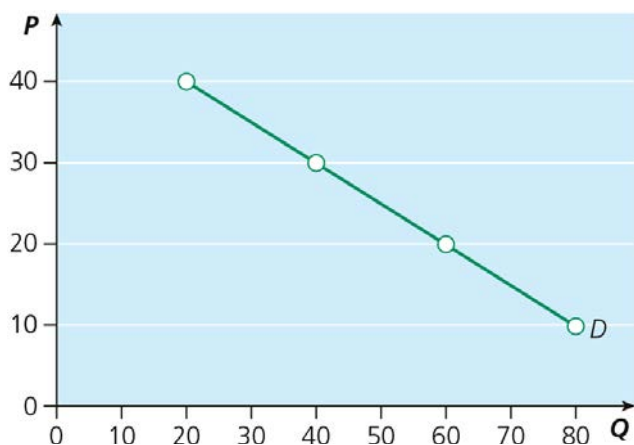
Note: you will receive no marks for saying that the factor market is where the factors of production are bought and sold.

2.2 Demand

Practice questions

- 1 Willingness is when a person wants to buy a product [1 mark]. Ability means they have the means, normally money, to do so [1 mark]. I may want to buy a new computer (willingness) but may not have the money to do so (lack of ability) [1 mark for the example].
- 2 Individual demand is what each person is prepared to buy at each price. Market demand is the adding together of all the individual demands for a product [1 mark for each correct statement].

3



1 mark for correctly labelling the axes, e.g. P and Q , and the demand curve D ; 1 mark for correctly plotting the demand curve.

Note: it is good practice to insert 0 for the origin but not essential for the marks.

4 a

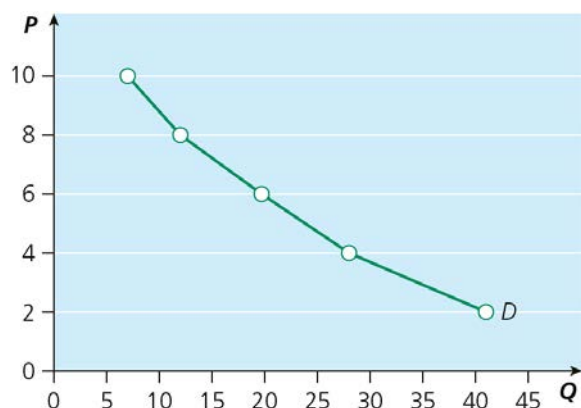
Price (£)	Ben's demand	Jit's demand	Naomi's demand	Ulrika's demand	Market demand
10	2	1	4	0	7
8	4	2	5	1	12
6	6	4	6	3	19
4	8	8	7	5	28
2	10	16	8	7	41

1 mark if all correct.



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b



1 mark for correctly labelling the axes, e.g. P and Q, and the demand curve D; 1 mark for correctly plotting the demand curve.

- 5** Any three from: rise in income; (increase in) effective marketing; change in taste and fashion; rise in the price of substitutes; fall in the price of complements or increase in demand for complements; increase in population or change in the population structure.

1 mark for each correctly identified.

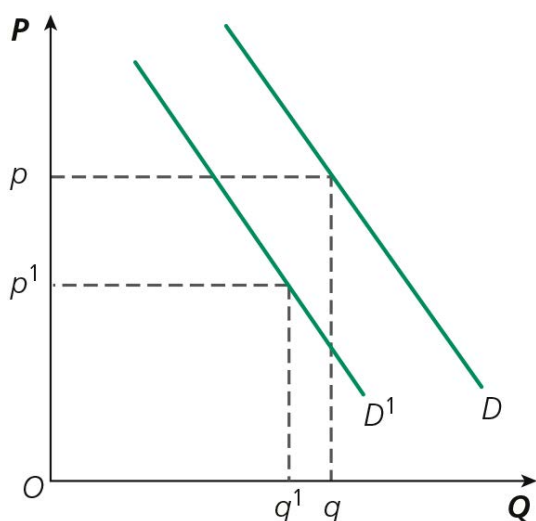
3 more marks, 1 each, for development of the three you have selected: $3 \times 2 = 6$ marks.

Note: if you just said, e.g., 'income', but in the development mentioned a rise/an increase in income, you would still receive 2 marks.

- 6** The price would fall [1 mark] and the quantity would fall [1 mark].

Note: the question does not ask for a diagram so there is no need to draw one.

- 7** Now you have been asked to draw the diagram. Make sure your answer to question 6 matches the diagram.



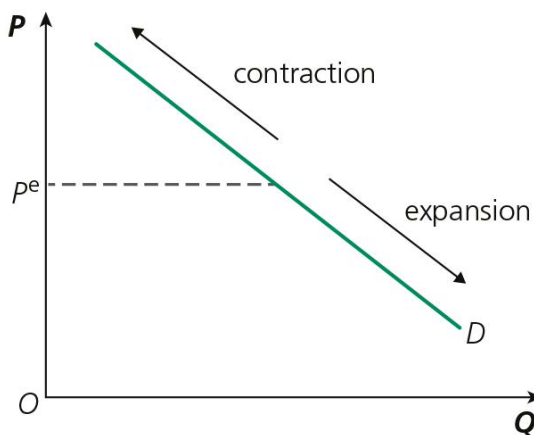
1 mark for correctly labelling the axes and both demand lines.

1 mark for drawing the second demand line to the left of the first one (D to D^1).

1 mark for correctly showing the fall in P and Q either as in the diagram or by use of arrows.



8



1 mark for correctly labelling the axes and the demand curve.

1 mark for showing movement up (contraction) and down (expansion) on the demand curve.

9 Price falls but quantity increases [1 mark].

10 a infinity or ∞

b greater than -1 or > -1

c unitary or -1

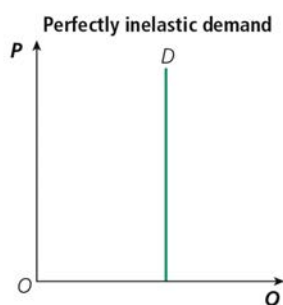
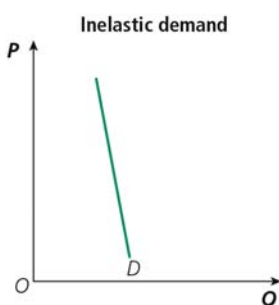
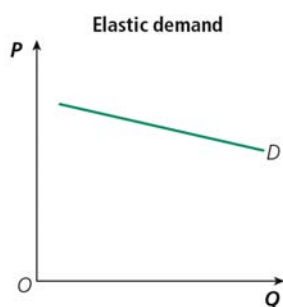
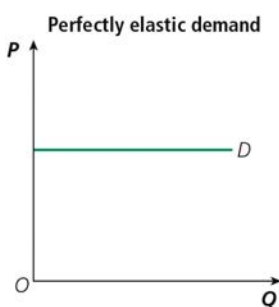
d less than -1 or < -1

e zero or 0

Note: the minus sign must be shown for b, c and d.

3 marks for all five correct; 2 marks for four correct; and 1 mark for three correct.

11



Remember, you must label the axes and the demand line in each diagram.

2 marks for four correct diagrams. 1 mark for three correct diagrams.



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12 Possible effects include:

- Governments can raise taxes on goods with inelastic demand, so consumers spend more on them.
- If firms can differentiate between consumers, they can charge some consumers higher prices and others lower prices.
- Consumers may have to pay more for some goods depending on the time of year.

In each case a basic statement is worth 1 mark, with 1 more mark for some expansion. Maximum: 4 marks.

13 Possible effects include:

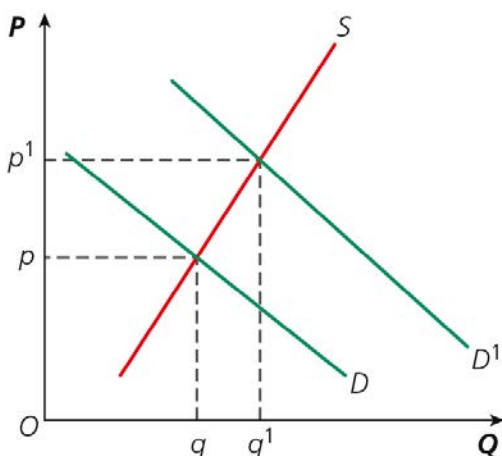
- Producers can increase total revenue by raising prices if inelastic and lowering them if elastic.
- Producers can use elasticity to calculate the effect of a price change on quantity.

In each case a basic statement is worth 1 mark, with 1 more mark for some expansion. Maximum: 4 marks.

Exam-style questions

3 Possible content (other points may be equally acceptable):

- Increase in customers' income
- Better marketing of the shoes by Ali and/or by the manufacturers
- Customers may prefer the shoes that Ali sells – change in taste and fashion
- More people living in the area served by Ali's shop
- Reduction in unemployment or other improvement in the economy
- Reduction in VAT on shoes



1 mark for knowledge (AO1a) which could be correctly drawing/labelling the axes.

2 marks for application (AO2): reference to Ali/shoe shop/shoe sales.

3 marks for analysis (AO3a): a good explanation of the diagram linked to some causes of the shift could gain 3 marks. Correctly shifting the D curve to D^1 would gain 1 of these marks.



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Note: you should choose the three causes you think are most likely and focus on these. Remember, there is only 1 knowledge mark available so if you do name all the possible causes and have drawn a correct diagram then you can still only get 1 mark for AO1a.

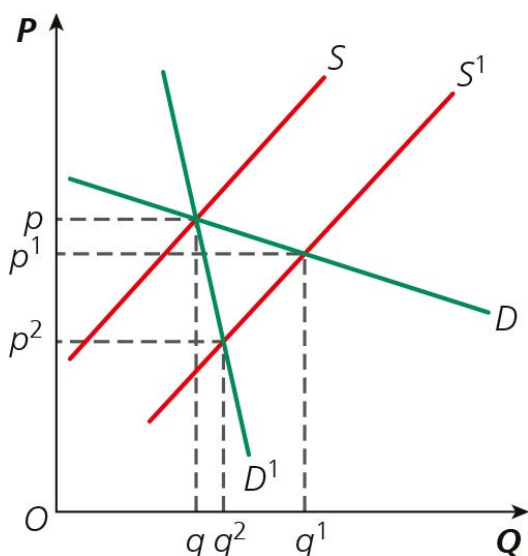
In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO1a – 1, AO2 – 2, AO3a – 3
- L2, 3–4 marks: AO1a – 1, AO2 – 1, AO3a – 2
- L1, 1–2 marks: AO1a – 1, AO2 – 0, AO3a – 1

If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

4 Possible content (other points may be equally acceptable):

- Inelastic demand would mean prices could rise to increase total revenue.
- Ali may be the only shop selling shoes, but what about online competitors or shops in other towns?
- In what sort of area is the shop located? If prosperous, price rises may be possible.
- If unemployment is high in the area, Ali might need to cut prices as *PED* is elastic.
- Diagram (not required by question):



Note: the question says the **extent to which**, so to get to L3 you need to look at possible reasons why raising prices might not be a good idea.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Ali, shoes etc., the maximum you can gain is 5 marks.



2.3 Supply

Practice questions

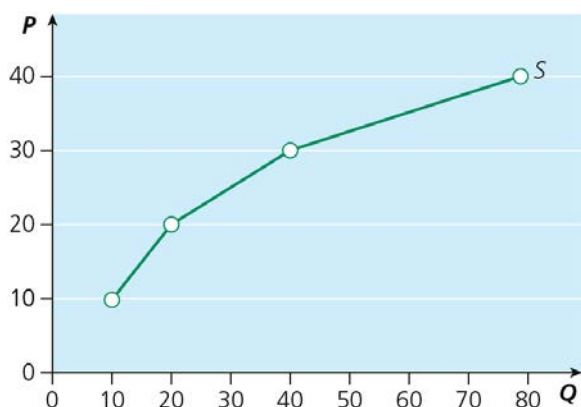
- 1** The time period is important because some products, e.g. the seats in a theatre, cannot be easily increased so are totally or very inelastic in the short run [1 mark]. In the long run an extension to the theatre (or a new theatre) could be built thus increasing capacity [1 mark].

1 mark for why it matters and 1 mark for example(s).

- 2** Market supply is the total supply of a product due to adding up all the supplies of individual producers at each price.

1 mark for total supply and 1 more mark for developing this.

3



1 mark for correctly labelling the axes, e.g. P and Q , and the supply curve S ; 1 mark for correctly plotting the supply curve.

4 a

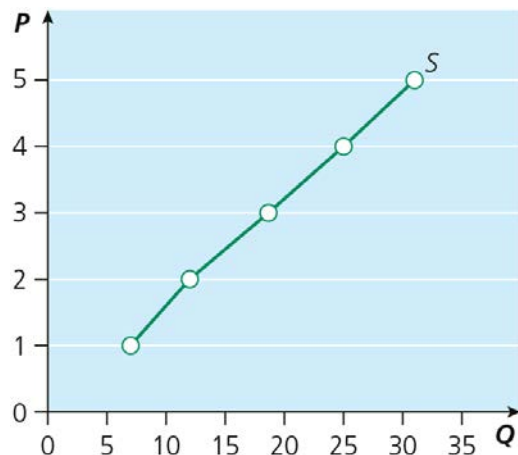
Price (£)	David's supply	Sangeeta's supply	Alex's supply	Gesa's supply	Market supply
1	2	1	4	0	7
2	4	3	5	0	12
3	6	5	6	2	19
4	8	7	7	3	25
5	10	9	8	4	31

1 mark if all correct.



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b



1 mark for correctly labelling the axes, e.g. P and Q , and the supply curve S ; 1 mark for correctly plotting the supply curve.

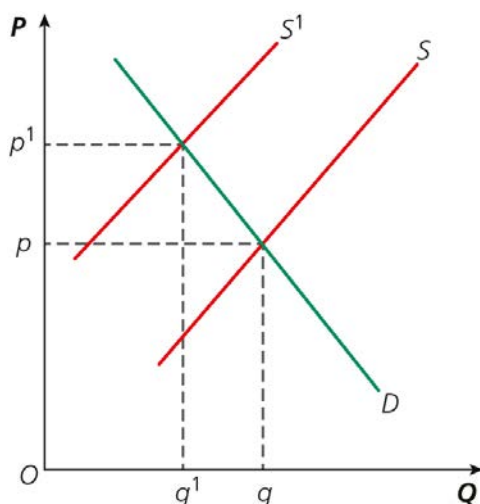
- 5** Any three from: fall in costs of production; fall in indirect tax or increase in subsidy; new or improved technology; better weather conditions; increase in number of producers or size of firms; easing of government regulations.

1 mark for each correctly identified.

3 more marks, 1 each, for development of the three you have selected: $3 \times 2 = 6$ marks.

- 6** Price would rise, quantity would fall [1 mark].

7



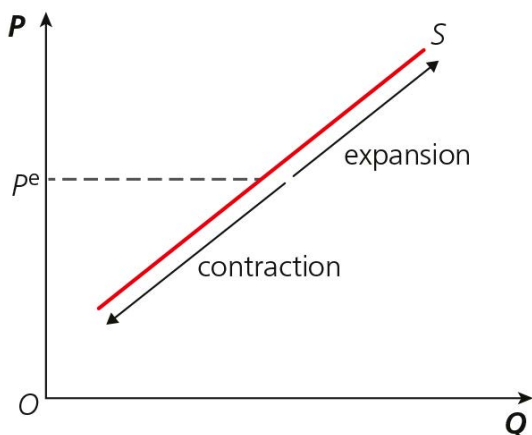
1 mark for correctly labelling the axes and both supply lines.

1 mark for drawing the second supply line to the left of the first one (S to S^1).

1 mark for correctly showing the rise in P and fall in Q either as in the diagram or by use of arrows.



8



1 mark for correctly labelling the axes and the supply curve.

1 mark for showing movement up (expansion) and down (contraction) on the supply curve.

9 Price and quantity would both fall [1 mark].

10 a infinity or ∞

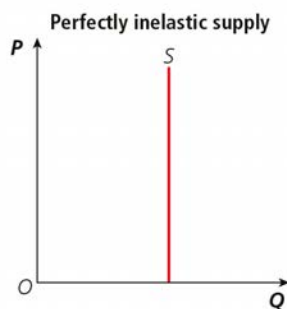
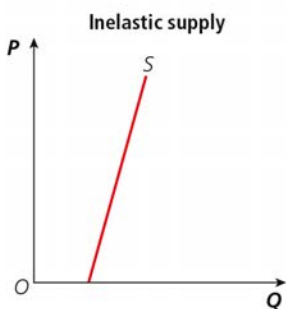
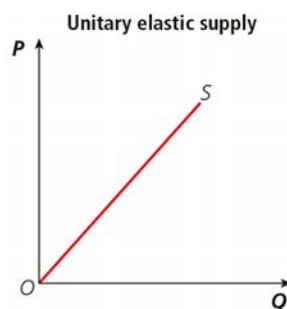
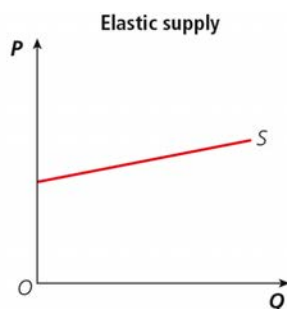
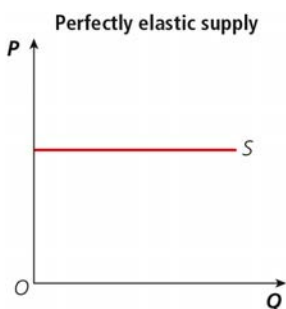
b greater than 1 or >1

c unitary or 1

d less than 1 or <1

e zero or 0

11



Remember, you must label the axes and the supply line in each diagram.

2 marks for five correct diagrams. 1 mark for four correct diagrams.



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- 12 a** Inelastic supply can make it difficult for consumers to get more of the product without having to pay a much higher price; **or** if supply is completely inelastic, willingness to pay more may not enable a consumer to get the product.
- b** Elastic supply would enable the consumer easily to obtain more of a product without paying a lot more; **or** elastic supply may make negotiating a price more difficult.

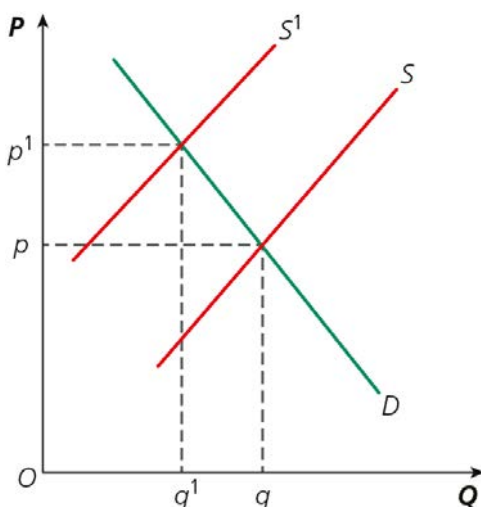
In each case 1 mark for the basic idea, plus 1 mark for some development.

- 13** Producers prefer to have an elastic supply curve as it allows them to respond easily to changes in price [1 mark] by reducing output (price fall) or increasing it (price rise) [1 mark].

Exam-style questions

- 3** Possible content (other points may be equally acceptable):

- The supply curve would shift upwards to the left.
- The price of each unit of the good would increase.
- The quantity sold would decrease.
- Nina may try to absorb the rise in costs/wages and thus the supply curve would remain the same.



Marking:

1 mark for knowledge (AO1a), which could be correctly drawing/labelling the axes.

2 marks for application (AO2): reference to Nina/costs rising/higher wages.

3 marks for analysis (AO3a): good explanation of the diagram linked to some of the effects on the supply curve could gain 3 marks. Correctly shifting the S curve to S^1 would gain 1 of these marks.

Note: you should choose the effects you think are most likely and focus on these. Don't forget that Nina may choose not to pass the effects of rising costs on to her buyers.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO1a – 1, AO2 – 2, AO3a – 3
- L2, 3–4 marks: AO1a – 1, AO2 – 1, AO3a – 2
- L1, 1–2 marks: AO1a – 1, AO2 – 0, AO3a – 1



OCR GCSE (9–1) Economics Workbook Answers

If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

4 Possible content (other points may be equally acceptable):

- Using the latest technology may enable Nina to respond more easily to changes in demand.
- If employees are better trained, they will be more efficient which could increase productivity.
- This would mean she could afford to pay higher wages without increasing her costs.
- Better-trained workers may be more flexible.
- She could improve storage methods, making it easier to respond to demand changes.
- Better storage might allow for greater stocks to be kept to meet increases in demand easily.

Note: the question asks you to evaluate which of these methods would be better or whether she should adopt another scheme. This means you can compare technology and training and/or introduce another method and compare that with one or both of these. This is an example of a question where a diagram is not required.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Nina and her business, the maximum you can gain is 5 marks.

2.4 Price

Practice questions

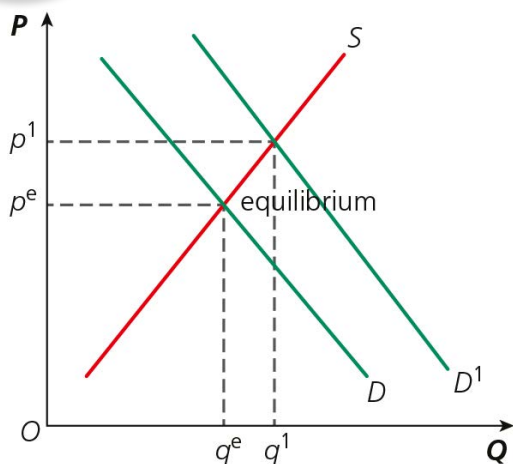
- 1** Price is the amount of money you have to pay to buy a product [1 mark]. Worth is how much you value something [1 mark].
- 2**
 - a** Prices rise to signal that more resources are needed and fall to signal that less are required [2 marks].
 - b** Higher prices transmit needs to suppliers of resources to supply more and vice versa [2 marks].
 - c** When resources are in short supply, prices rise so that only those willing and able to pay the higher price will gain the resources [2 marks].

Note: 1 mark for a basic statement and 1 mark for some development.

- 3** This is the equilibrium price [1 mark].
- 4**



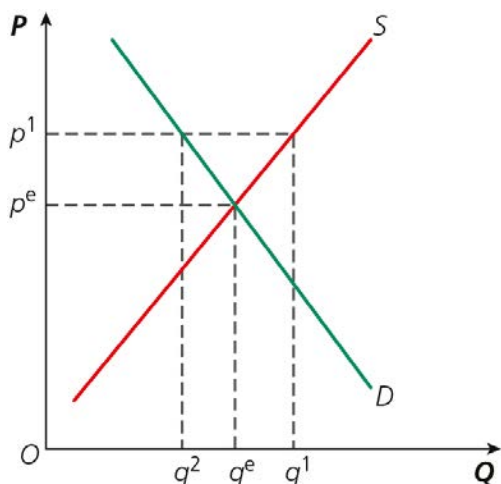
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1 mark for correctly labelling the axes and the D and S lines; 1 mark for some indication of equilibrium, e.g. 'equilibrium' or p^e and q^e .

- 5 1 mark for shifting the demand curve to the right and labelling it correctly, D^1 ; 1 mark for showing the new price and quantity, p^1 and q^1 .

6



1 mark for correctly labelling the axes and the D and S lines.

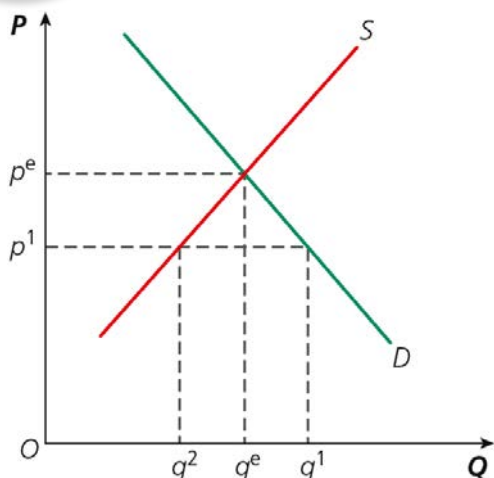
1 mark for correctly indicating excess supply – could be as in the diagram or by showing on the diagram excess supply as the distance at p^1 between the S and D lines.

- 7 The seller should lower the price to the equilibrium price [1 mark].

8



OCR GCSE (9–1) Economics Workbook Answers



1 mark for correctly labelling the axes and the D and S lines.

1 mark for correctly indicating excess demand – could be as in the diagram or by showing on the diagram excess demand as the distance at P^1 between the S and D lines.

9 Consumers send signals to producers about what, and how many, goods to produce and for whom [1 mark]. By being prepared to pay more, consumers tell suppliers to move scarce resources to the production of that good. The reverse will also be true [1 mark].

10 Demand and supply [1 mark for both].

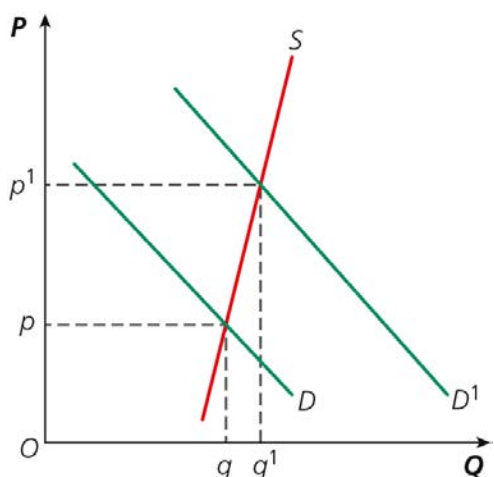
11 a A shift in the demand curve to the right leads to **a rise** in the equilibrium price and **an increase** in the equilibrium quantity.

b A shift in the supply curve to the right leads to **a fall** in the equilibrium price and **an increase** in the equilibrium quantity.

Exam-style questions

3 Possible content (other points may equally acceptable):

- The demand curve would shift to the right.
- Supply is inelastic, so does not respond quickly to change in demand.
- The price will rise steeply.
- The quantity will increase by a small amount.





OCR GCSE (9–1) Economics Workbook Answers

1 mark for knowledge (AO1a), which could be correctly drawing/labelling the axes.

2 marks for application (AO2): reference to Kofi/furniture.

3 marks for analysis (AO3a): good explanation of the diagram linked to some of the effects of increasing demand on the supply curve/ P and Q could gain 3 marks. Correctly shifting the D curve to D^1 would gain 1 of these marks.

In the exam the marks are awarded in three levels:

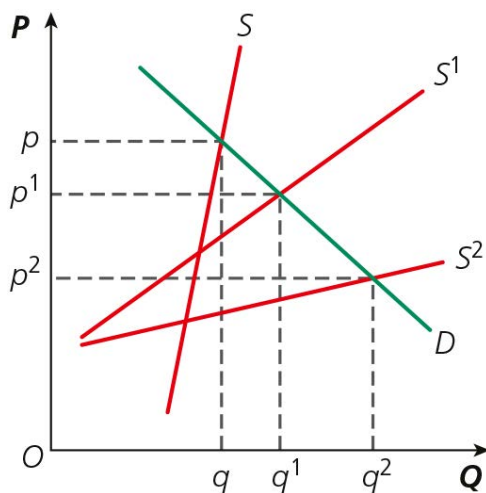
- L3, 5–6 marks: AO1a – 1, AO2 – 2, AO3a – 3
- L2, 3–4 marks: AO1a – 1, AO2 – 1, AO3a – 2
- L1, 1–2 marks: AO1a – 1, AO2 – 0, AO3a – 1

If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

4 Note: this is another analysis question.

Possible content (other points may equally acceptable):

- The more elastic the supply curve is, the less the increase in price and the greater the increase in quantity (assuming demand shifts outward).
- The outcome will depend on how elastic Kofi can make the supply curve (S^1 versus S^2).
- Any change is likely to take time as, e.g., training of workforce does not happen overnight.



1 mark for knowledge (AO1a), which could be correctly drawing/labelling the axes.

2 marks for application (AO2): reference to Kofi/furniture.

3 marks for analysis (AO3a): good explanation of the diagram linked to some of the effects of increasing the elasticity of supply on P and Q could gain 3 marks. Correctly drawn supply curves of different elasticity would gain 1 of these marks.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO1a – 1, AO2 – 2, AO3a – 3
- L2, 3–4 marks: AO1a – 1, AO2 – 1, AO3a – 2
- L1, 1–2 marks: AO1a – 1, AO2 – 0, AO3a – 1

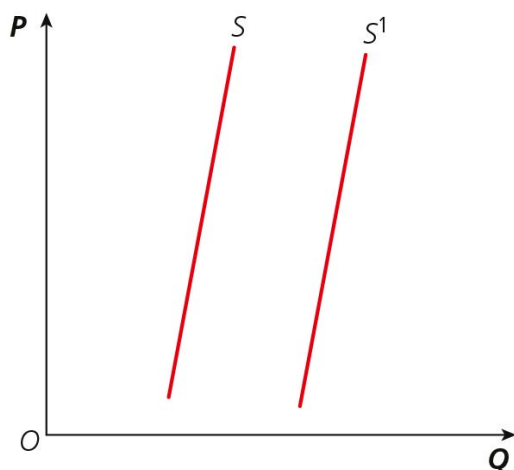


If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

2.5 Competition

Practice questions

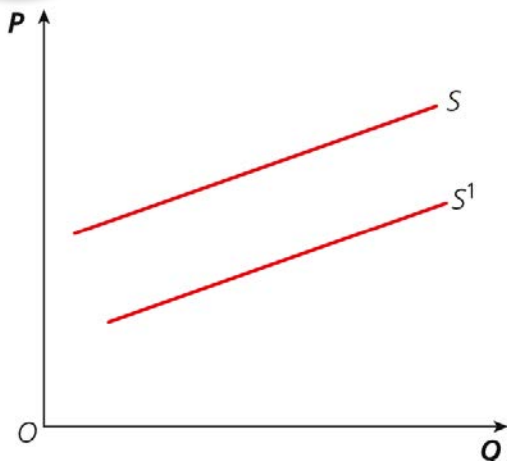
- 1 A market economy is where scarce resources are allocated by the forces of demand and supply [1 mark for mentioning demand and supply; 2 marks for an answer similar to this].
- 2 A competitive market is where a large number of producers compete with each other [1 mark] to satisfy the wants and needs of a large number of consumers [1 mark].
- 3 Profit is needed to provide firms with money to invest and grow [1 mark]. It is also needed for firms to survive, as a loss means they will go out of business [1 mark].
- 4 Producers lower prices to gain customers and market share [1 mark].
- 5 Price competition is limited because firms cannot sell at less than the cost of producing goods for any length of time [1 mark].
- 6 Possible methods include: marketing/advertising; branding; specialist product; quality of service/personalised service; and location.
1 mark for each correct method up to 2 marks. 1 more mark for some development of each method.
- 7 a Inelastic:



- b Elastic:



OCR GCSE (9–1) Economics Workbook Answers



In each case: 1 mark for correctly drawing and labelling the axes and the original supply line (S) and 1 mark for correctly drawing and labelling the shift in supply (S^1).

- 8 In the case of inelastic supply, the price falls by a large amount [1 mark]. In the case of elastic supply, price falls by only a little [1 mark].
- 9 Producers will try to use technical innovations [1 mark] to become more efficient, thus reducing costs [1 mark]. Another possible answer is: producers may replace labour with new technology [1 mark], which can run continuously/does not need breaks/does not ask for pay rises [1 mark].
- 10 Competition leads to a fall in price. It may also lead to better quality. In addition, firms may innovate, increasing consumer choice and variety. All of this will lead to a rise in the consumers' standard of living.
Up to 2 marks for basic statements, plus 1 more mark for why this is good, i.e. higher standard of living. An answer that just says: 'Competition leads to a fall in price, which reduces the cost of living' can be awarded 2 marks.
- 11 A legal monopoly exists if one producer controls 25% or more of the market as against 100% [1 mark].
- 12 Barriers to entry include: legal through Act of Parliament; greater efficiency/economies of scale; location; copyright/patent laws. Any two for 2 marks.
- 13 The most likely points are: barriers to entry are strong in monopoly but weaker/more limited in oligopoly; a monopoly sets the price, but in an oligopoly there is often collusion or an oligopoly reacts to its rivals' prices; monopolies can be efficient due to large economies of scale, but oligopolies are usually inefficient.

1 mark for each point up to 2 marks and 1 more mark for each development.

Exam-style questions

- 3 To gain greater profits/profit maximise, so as to invest more/increase innovation/take over competitors.
To increase market share, so as to become a market leader/gain greater economies of scale/force out or take over competitors.
In each case 1 mark for the basic point and 1 mark for development: $2 \times 2 = 4$ marks.
- 4 Possible content (other points may be equally acceptable):



OCR GCSE (9–1) Economics Workbook Answers

- Force Charlie to become more efficient
- Increase productivity
- Allow Charlie to gain greater economies of scale
- May lead to new customers attracted by lower prices etc.
- Costs involved in changes to the business to meet competition
- Costs of increased marketing/advertising
- Could affect employee motivation/loyalty, etc.

Note: the question asks the **extent to which**. To gain full marks this needs to be clearly addressed, ranging from very beneficial to very disadvantageous. This is another example of a question where a diagram is not required, but if you would find it helpful to draw and analyse one, it will be credited if correct and relevant.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Charlie, Mia or producers, the maximum you can gain is 5 marks.

2.6 Production

Practice questions

- 1 Employing workers means that goods and services are produced [1 mark]. The workers are paid wages, which they then spend on goods and services, so producers make a profit [1 mark].
- 2 Individuals can work for themselves – self-employed [1 mark]. They can also be producers of non-market services, e.g. cleaning and cooking [1 mark].
- 3 Any three from: increase in employment; increase in profits for firms, leading to more investment in the economy; economic growth; rise in the standard of living; larger economies of scale, making the economy more efficient. 1 mark each, $3 \times 1 = 3$ marks. Note: advantages **must** be for the economy **not** for a firm.
- 4 Increased production could lead to rising average costs (diseconomies of scale) [1 mark].
- 5 Productivity could be increased by: investment in new/better technology/equipment; better education and training for the workforce; using better-quality raw materials. Any two for 2 marks.
- 6 For individuals higher productivity is likely to result in **higher wages** and an increase in their **standard of living**.
- 7 a Allows firms to lower average costs/gain economies of scale [1 mark], so they compete more effectively/decrease prices [1 mark]. It also gives them greater profits [1 mark], so they can invest more in better equipment/technology and/or attract higher-skilled workers through better pay [1 mark].



OCR GCSE (9–1) Economics Workbook Answers

b Governments benefit from higher output [1 mark], leading to more employment/lower unemployment and/or greater government revenue from taxes [1 mark]. If firms are more competitive, exports will increase [1 mark], leading to more economic growth [1 mark].

8 Any two from: more unemployment; rise in government payments to support unemployed or to retrain workers; retaliation by other countries because of greater competitiveness, leading to lower economic growth/fall in GDP [2 marks].

9 $TC = FC + VC = £375 + £494 = £869$. 2 marks for correct answer with £ sign; 1 mark for 869.

10

Total cost (£)	Quantity (kg)	Average cost (£)
100	5	20
200	14	14.29
300	25	12
400	40	10
500	48	10.42

Answers to 2 decimal places as they are monetary answers.

2 marks for all correct, 1 mark if one error.

11

Total revenue (£)	Quantity (kg)	Average revenue (£)
200	4	50
400	10	40
600	24	25
800	50	16
1,000	80	12.50

Answers to 2 decimal places as they are monetary answers.

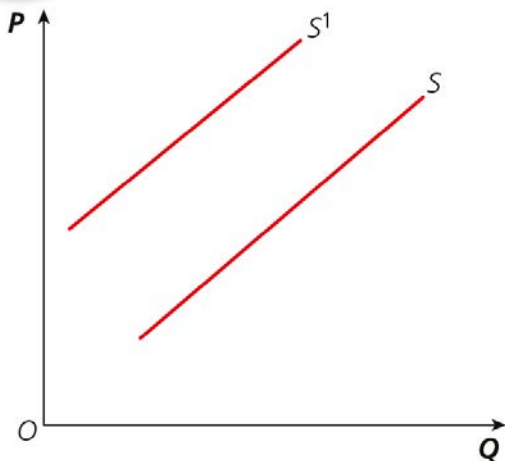
2 marks for all correct, 1 mark if one error.

12 Profit is where a firm's total revenue is **greater than** its total costs, whereas a loss is where a firm's total revenue is **less than** its total costs [1 mark].

13



OCR GCSE (9–1) Economics Workbook Answers



1 mark for correctly drawing and labelling the axes and the original supply line (S); 1 mark for the new supply line (S^1) to the **left** of the original. Maximum: 2 marks.

- 14** Any three from: allows firms to make profit; allows them to borrow money more easily; creates confidence in the business. 1 mark for the basic point plus 1 more for some development: $3 + 3 = 6$ marks.
- 15 a** Internal economies of scale are the result of the growth of the individual firm [1 mark].
- b** External economies of scale are the benefits to a firm from being a member of an industry or due to location [1 mark].
- 16 a** Purchasing economies of scale come about by buying products in bulk [1 mark], so the cost per unit is lower/so they get a discount [1 mark].
- b** Financial economies of scale result in being able to borrow money [1 mark] at a lower rate of interest [1 mark]. Alternatively: they result in large firms having more sources for new capital [1 mark], e.g. issuing shares [1 mark].

Exam-style questions

- 3** Economies of scale are the cost advantages, due to falling AC [1 mark], that a firm can gain from increasing the scale of production [1 mark].
- 1 mark for the basic point and 1 mark for development.
- 4** Possible content (other points may be equally acceptable):
- Increased production could lead to:
 - more revenue and profits
 - larger economies of scale
 - increase in market share
 - increased importance of the firm as it is larger/has greater output
 - but could result in AC rising/diseconomies of scale.
 - Improving productivity could lead to:
 - lower average costs and economies of scale
 - ability to set lower price/become more competitive
 - greater profits
 - greater efficiency
 - but could result in higher capital costs.



Note: the question requires a supported decision on whether increasing production or improving productivity is better. Analysis comes from showing the advantages of both ideas.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Frankie, Sam or producers, the maximum you can gain is 5 marks.

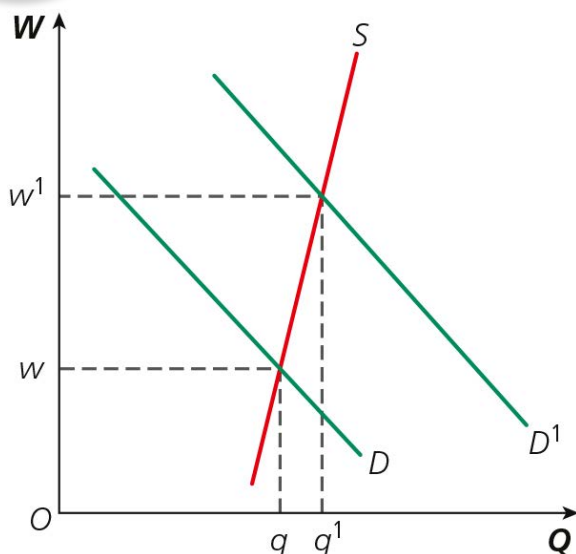
2.7 The labour market

Practice questions

- 1 Wages provide **an income** for households but are **costs** to firms [1 mark].
- 2 Any three from: they may lack the necessary skills, so are unable to transfer to new types of work; they may be unwilling to relocate as they may not speak the language or it may be too expensive etc.; personal factors like family ties, so do not/cannot move any distance from where they now live; there may be information failure as they are not aware of opportunities in other areas.
1 mark for each reason and 1 mark for each development. $3 + 3 = 6$ marks
- 3 Wage rates, employment conditions, level of competition, job location.
2 marks for all four; 1 mark for three correct types of information.
- 4 Direct interaction between individual employees and their employer [1 mark]; interaction between workers' representatives (trade unions) and the employer [1 mark].
- 5 Any four from: the state of the economy; change in demand for certain products; wage rates; real wages; productivity; profitability of firms.
1 mark for each correct factor up to 4 marks; 1 mark each for development of the four factors. $4 + 4 = 8$ marks
- 6 The diagram may depend on precisely which factor you have chosen, but the most likely diagram is the one below.



OCR GCSE (9–1) Economics Workbook Answers



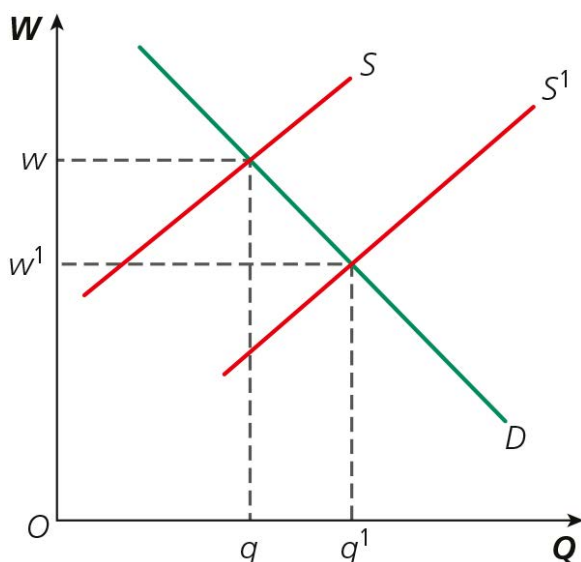
1 mark for correctly drawing and labelling the axes and the original D and S curves.

1 mark for shifting the demand curve to the right [D^1] and showing the new wage and quantity.

- 7** Any four from: wage rate; overtime payments etc.; size of the working population; non-monetary factors; barriers to entry; education and training.

1 mark for each correct factor up to 4 marks; 1 mark each for development of the four factors. $4 + 4 = 8$ marks

- 8** The diagram will depend on precisely which factor you have chosen. Barriers to entry would cause the supply curve to be inelastic and shift to the left. The most likely diagram is the one below.



1 mark for correctly drawing and labelling the axes and the original S and D curves.

1 mark for shifting the supply curve to the right (S^1) and showing the new wage and quantity.

- 9** For the shift in demand: the wage rose, as did the quantity of labour [1 mark].

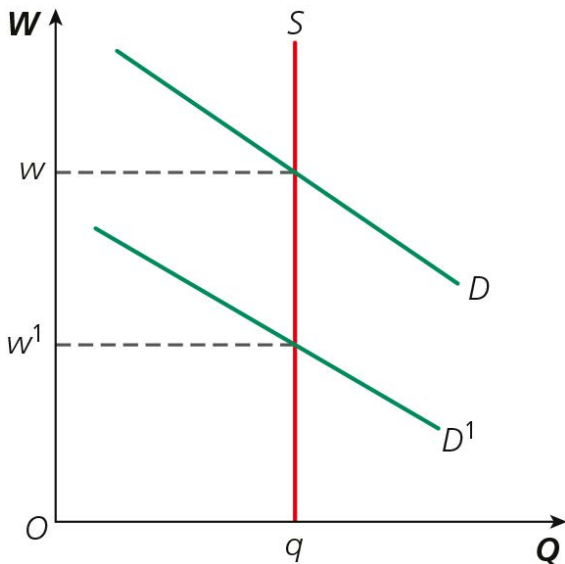
For the shift in supply: the wage fell, but the quantity of labour rose [1 mark].



OCR GCSE (9–1) Economics Workbook Answers

- 10 a** *PED* for labour might be inelastic because it takes time for employers to change their demand for labour [1 mark]. They do not immediately demand fewer workers because costs have risen etc. [1 mark for some development – this is an example].
- b** *PES* for labour might be inelastic if there is a barrier to entry [1 mark]. Doctors have to be qualified, which usually takes 7 years [1 mark for some development – this is an example].

11



1 mark for correctly drawing and labelling the axes and the original *D* and totally inelastic *S* curves.

1 mark for shifting the demand curve downwards (*D*¹) and showing the new wage.

12

Payment in the year	£
Wages	30,000
Income tax	3,900
Annual bonus	1,500
Gross pay	31,500

Note: income tax is not part of gross pay.

13

Payment in the year	£
Gross pay	27,500
Income tax	3,100
National insurance	1,500
Pension contributions	1,200
Net pay	21,700

Note: income tax, national insurance and pension contributions are all deductions from gross pay.



Exam-style questions

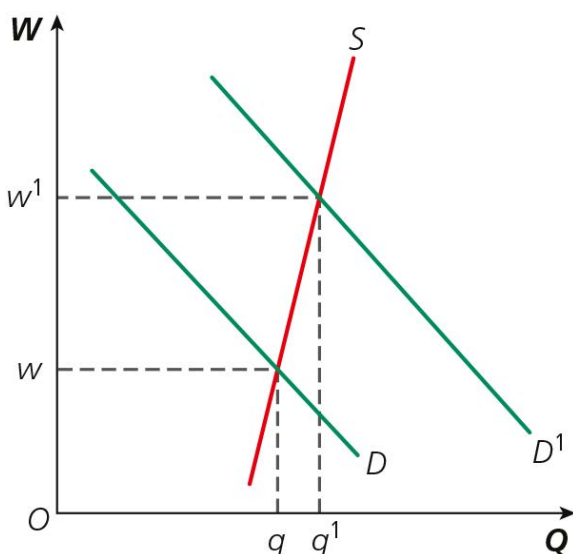
3 Gross pay is the amount of money an employee earns before any deductions are made.

Net pay is gross pay minus deductions such as tax and national insurance.

1 mark for each explanation, $2 \times 1 = 2$ marks.

Note: don't write too much for 2 marks for these 'Explain' questions.

4 A shortage of trained chefs could mean that the supply curve shifts inwards or that if Li's demand increases then the demand curve shifts outwards (see below). Given that there are only 6 marks available, you should choose to analyse one of these two possibilities rather than both, though you could mention the one that you don't analyse.



The supply of trained chefs is likely to be inelastic as training is a lengthy process. This means that if Li needs more chefs, as the demand curve moves outwards the wage rate will increase considerably from w to w^1 , but the increase in chefs is very small, q to q^1 . As a result Li is likely to have to raise prices to customers so as to be able to pay the higher wage. This may mean fewer consumers.

1 mark for knowledge (AO1a), which could be correctly drawing/labelling the axes.

2 marks for application (AO2): reference to Li/chefs.

3 marks for analysis (AO3a): good explanation of the diagram linked, in this case, to the effects on the wage rate and quantity of chefs together with a comment on the knock-on effects on consumers would gain 3 marks. Correctly drawn shift of demand (as above) or supply curves would gain 1 of these marks.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO1a – 1, AO2 – 2, AO3a – 3
- L2, 3–4 marks: AO1a – 1, AO2 – 1, AO3a – 2
- L1, 1–2 marks: AO1a – 1, AO2 – 0, AO3a – 1

If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.



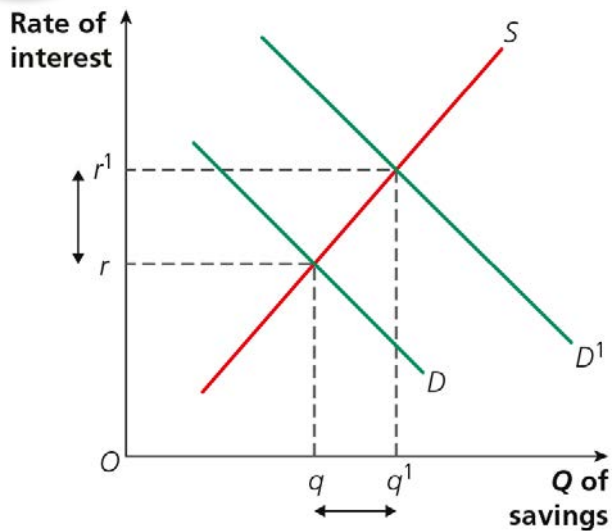
2.8 The role of money and financial markets

Practice questions

- 1 Either: because they are not acceptable everywhere; or: because they are not notes or coins or bank deposits [1 mark].
- 2 The role of the financial sector is to allow markets to function [1 mark] and to allow households, firms and governments to carry out economic activities [1 mark].
- 3 In the UK, the central bank is called **the Bank of England** [1 mark].
- 4 Any three from: issues bank notes; controls monetary policy/sets the bank rate; provides financial stability; manages foreign reserves; bank for the commercial banks; bank for the government.
1 mark for each correctly identified. 1 more mark in each case for some development: $3 \times 2 = 6$ marks.
- 5 Any three commercial banks are acceptable. Possible answers are: HSBC; Barclays; Lloyds; NatWest; Santander [1 mark for three correct answers].
- 6 Any three from: accept deposits; make payments for customers; issue loans; offer safe deposit boxes.
1 mark for each correctly identified. 1 more mark in each case for some development: $3 \times 2 = 6$ marks.
- 7 Any three building societies are acceptable. Possible answers are: Nationwide; Skipton; Coventry; Yorkshire; Leeds [1 mark for three correct answers].
- 8 Banks are owned by their shareholders, but building societies are owned by their members/savers [2 marks]. The number of votes that a shareholder has depends on the number of shares owned, but members of a building society have one vote each [2 marks].
Other comparisons are acceptable on the basis of a brief statement [1 mark] and a clear comparison [2 marks]. Maximum: 4 marks.
- 9 Life insurance is a form of saving [1 mark]. It pays out money to the holder, or their family, at the end of the period specified [1 mark]. General insurance covers all non-life policies [1 mark]. It covers people for unexpected events [1 mark].
- 10
 - a It allows consumers to purchase products that at the time they cannot buy [1 mark] out of their money either in the short term (credit cards) or in the longer term (mortgages) [1 mark].
 - b Producers can borrow money to enable them to expand [1 mark], without having to save all the necessary money [1 mark].
Another acceptable answer would be: Producers can borrow money to pay for goods and repay once they have been sold [1 mark] or for long-term investment without saving for it [1 mark].
 - c Governments use credit to allow for the short-term difference between the amount of money raised in taxation and expenditure [1 mark] or to enable them to spend more than their revenue/taxation (deficit budget) [1 mark].
- 11 It allows, e.g., firms to continue to function [1 mark] when faced with unexpected demands for cash [1 mark].
- 12 Risk management allows savers to reduce their risk [1 mark] when some savings do less well/to overcome financial uncertainties [1 mark].
- 13



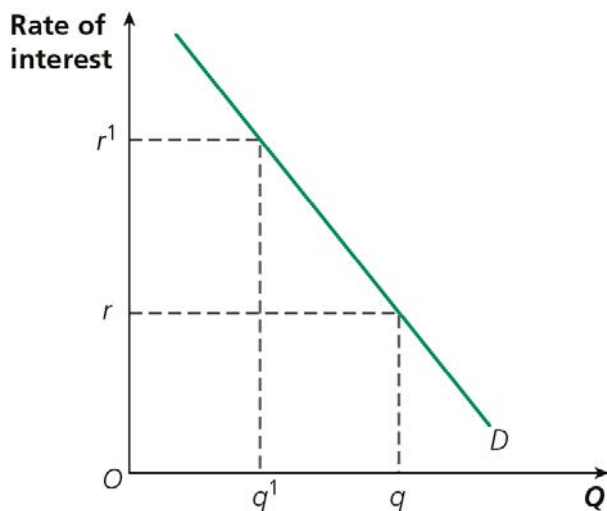
OCR GCSE (9–1) Economics Workbook Answers



1 mark for correctly drawing and labelling the axes and the S and D curves (S and D/D^1).

1 mark for clearly showing the effect on savings of the rise and fall in interest rates. There are various ways of doing this, such as the arrows shown in the diagram.

14



1 mark for correctly drawing and labelling the axes and the D curve.

1 mark for correctly showing the rise in R and the fall in Q .

15 The level of investment and the rate of interest are inversely related [1 mark]. A fall in the rate of interest means it is cheaper to borrow, so investment will increase [1 mark].

16 $£500 \times 4\% = 500 \times \frac{4}{100} = £20$

2 marks for the correct answer. 1 mark for correct figures but incorrect answer or no £ sign.

17 Bank A: $£10,000 \times 8\% = £10,000 \times \frac{8}{100} = £800$

Bank B: $£10,000 \times 10\% = £10,000 \times \frac{10}{100} = £1,000 = £500$ for 6 months +

$£10,000 \times 5\% = £10,000 \times \frac{5}{100} = £500 = £250$ for 6 months = £750 for the year



OCR GCSE (9–1) Economics Workbook Answers

Bank B would be better as £750 is £50 less than £800.

1 mark for correctly calculating £800.

1 mark for correctly calculating £500 + 1 mark for £250 or 2 marks for calculating £750.

2 marks for stating which bank Azmi should borrow from and why.

If you forgot to halve the two figures for Bank B and thus got £1,500, then a maximum of 3 marks: 1 for £800 and 2 marks for explaining why Bank A is better.

Exam-style questions

3
$$£100,000 \times 7.5\% = £100,000 \times \frac{7.5}{100} = £7,500 \times 10 = £75,000$$

3 marks for the correct answer.

If the answer is incorrect, 1 mark for £7,500 and 1 mark for multiplying by 10.

4 Possible content (other points may be equally acceptable):

- Provision of credit avoids the need to save large amounts before expanding
- Provision of credit allows producers to buy goods/services without having the money in the bank so they can sell them and then repay
- Overdraft facilities smooth over differences when revenue flows in and when expenditure is due
- Overcomes economic uncertainties
- Depends on how much easily accessible money the producer has
- Depends on the type of business
- May be more important for the printing part of the business – need to buy in different sizes/quality of paper before orders come in

Note: the question requires a supported decision on **how important** the financial sector is for producers. Analysis comes from clearly explaining some of the points above.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Taylor/Sam or to printing/photography then the maximum you can gain is 5 marks.



Section 3 Economic objectives and the role of government

3.1 Economic growth

Practice questions

- 1 The value of the output of the country in a year is the same as the **incomes for those** who produced it [1 mark].
- 2 Rate of growth = $\frac{3.6}{80} \times 100$ [1 mark] = 4.5% [1 mark, no mark for 4.5] or 2 marks for 4.5%.
- 3 GDP in Year 2 = £140bn × 5% [1 mark] + £140bn = £147bn [1 mark]. No £bn/billions = 0 marks.
- 4 GDP per capita = £800bn/50m [1 mark] = £16,000 [1 mark]. No £ = 0 marks.
- 5 GDP = £25,000 × 40m [1 mark] = £1000bn [1 mark]. No £bn/billions = 0 marks.
- 6 Economic growth has been positive throughout (or has increased every year) [1 mark]. The highest growth was 5.1% in 2018 and the lowest 0.8% in 2020 (or it initially rose then fell but recovered in 2021) [1 mark].

1 mark for the basic idea of always positive and 1 mark for development. No marks for regurgitation of the data.
- 7 Italian growth gradually declined from 2017 to 2019 and then became negative in 2020 [–9%] [1 mark]. In 2021 it recovered to over 6% [1 mark]. 1 mark only for ‘it declined, becoming negative, and then ended positive’, i.e. with no time indication.
- 8 Investment is the spending on capital goods (or you can list machinery etc.) [1 mark]. This allows an economy to produce more products in the future, increasing GDP/economic growth [1 mark].
- 9 Education and training can both improve the skills of the workforce, thus increasing output and economic growth, and also improve the quality of labour, so the products have higher value and thus lead to greater GDP and economic growth [2 marks: 1 mark for the idea of increased output and 1 mark for quality].
- 10 Governments invest in infrastructure such as roads and rail, so goods can move faster and more easily, thus enhancing economic growth. Through demand- and supply-side policies they can control the economy, trying to ensure steady economic growth.

1 mark for each basic point and 1 mark for development: 2 × 2 marks. You can also mention mixed economies and their advantages.
- 11 Any two from: rise in material standard of living; rise in employment or lower unemployment; reduction in poverty; rise in the general welfare of the population [4 marks: 1 mark for each benefit and 1 for each development, 2 × 2 marks].
- 12 Any two from: [air] pollution; global warming; congestion; loss of non-renewable resources; lower quality of life; inequalities of income and wealth; inflation [4 marks: 1 mark for each cost and 1 for each development, 2 × 2 marks].
- 13 a Benefits – any one from: rise in living standards; reduction in poverty; fall in unemployment [1 mark].



OCR GCSE (9–1) Economics Workbook Answers

Costs – any one from: congestion; loss of non-renewable resources; lower quality of life; inflation [1 mark].

b Benefit: rise in welfare [1 mark].

Costs – any one from: lower quality of life; income and wealth inequalities [1 mark].

Exam-style questions

3 Possible content (other points may be equally acceptable):

- Discovery of natural resources creates a new industry for the country
- Greater employment and incomes
- Leads to exports of the resource
- Lithium is a rare mineral, so would generate large sums of money
- Increase in GDP and thus economic growth

Marking:

1 mark for knowledge (AO1a), which could be knowledge re lithium or that it would create a new or expanded industry.

2 marks for application (AO2): reference to benefits of natural resources for a country.

3 marks for analysis (AO3a): explanation as to how the discovery of lithium would benefit the country.

Note: you should choose the benefits you think are most likely and focus on these.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO1a – 1, AO2 – 2, AO3a – 3
- L2, 3–4 marks: AO1a – 1, AO2 – 1, AO3a – 2
- L1, 1–2 marks: AO1a – 1, AO2 – 0, AO3a – 1

If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

4 Possible content (other points may be equally acceptable):

- Benefits:
 - rise in living standards
 - reduction in poverty
 - fall in unemployment
 - rise in welfare
- Costs:
 - congestion
 - pollution
 - lower quality of life
 - inflation
 - income and wealth inequalities

Note: the question says **greater than**, so to get to L3 you need to decide whether benefits are greater than costs or vice versa.

In the exam the marks are awarded in three levels:



- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Carlos, Cooich or the country, the maximum you can gain is 5 marks.

3.2 Low unemployment

Practice questions

- 1 Either: full employment occurs when an economy is using most of its workers to produce output [1 mark] and then: although some will be frictionally unemployed [1 mark]/where there is no cyclical unemployment [1 mark]. Or: full employment is when all those willing and able to work at the given wage level [1 mark] are either in a job or about to take up a job [1 mark].
- 2 Any two from: pensioners; full-time students; those not prepared to work at the current wage level; those who choose to stay at home to look after children, parents etc. [2 marks].
- 3 Any two from: universal benefit; jobseeker's allowance; employment and support allowance; personal independence payment; pension credit; any other relevant example [2 marks].
- 4 The level of unemployment refers to the number of people in the working population who are unemployed [1 mark]. The rate of unemployment shows the percentage of the country's workforce that is unemployed [1 mark]. 1 mark only for an answer which just says 'one is a number and the other a percentage'.
- 5
$$\text{Unemployment rate} = \frac{2.5}{40} \times 100 \text{ [1 mark]} = 6.25\% \text{ [1 mark]}$$

2 marks for the correct answer, which must have the % sign. 1 mark for the correct working as above.
- 6 The male unemployment rate was originally less than the female unemployment rate [1 mark] (and less than the total rate), but from 2019 this was reversed with the male rate being greater than the female one [1 mark]. (If you answer from the female perspective, the answer will be the reverse.)
- 7 Cyclical unemployment is caused by a fall in total demand in the economy, while structural unemployment is caused by a permanent decline of an industry/industries [1 mark only as these are definitions not descriptions]. Cyclical unemployment will affect (nearly) all industries, but structural unemployment will only affect specific industries and is likely to be long term [1 mark].
- 8 There are always some workers who are between one job and another [1 mark] as the labour market takes time to match job vacancies with those seeking work [1 mark].
- 9 Any two from: summer holiday job workers (or examples); ice cream sellers; Punch and Judy operators; ski instructors etc. Any two sensible suggestions that match the definition [2 marks].
- 10
 - a Fall in incomes, so can afford fewer goods and services, leading to lower living standards and possibly poverty. Loss of esteem and/or social status, leading to personal problems, e.g. family break-ups, mental illness, suicide etc.
 - b Region could become depressed as unemployment in industries causes knock-on effects in, e.g., retailing. Lack of jobs leads to people moving away for work, leading to only older people or



children remaining, so new work is unlikely to come. Demand for goods etc. will be low, so firms looking for places to locate are less likely to go to the region as they will not have a local market.

- c Unemployment means tax levels fall, but governments have to spend more on benefits, leading to a budget deficit. Waste of labour resources, so workers become dispirited and/or move to other countries, so there is a loss of talent/skills.

In each case, 1 mark for the basic consequence and 1 mark for development/outline of this: $3 \times 2 = 6$ marks.

Exam-style questions

- 3 This is the method of measuring unemployment according to the number of people who are claiming unemployment-related benefits such as jobseeker's allowance. It is an actual number rather than a percentage [2 marks].
- 4 Possible content (other points may be equally acceptable):
- Money diverted to unemployment benefits will mean fewer jobs created.
 - Unemployment may make the region unattractive for firms to move to.
 - More educated or more active people may move away and be lost to the region.
 - The rise in unemployment rate may be small, so there is no real change in attractiveness of the region.
 - A pool of skilled unemployed might attract new firms, especially as they might be willing to work for lower pay.
 - The government might be willing to put more money into the area to boost infrastructure, jobs etc.

Note: the question says 'consequences ... will be negative', so to get more than 1 mark for L3, you need to decide whether this will be case or whether there are any positives.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Natasha's region, the maximum you can gain is 5 marks.

3.3 Fair distribution of income

Practice questions

- 1 Rent comes from owning land and property [1 mark] and letting it out to other people who pay you money (rent) [1 mark].

Interest is the return on saving [1 mark]. People lend money to financial institutions (often banks/building societies) and in return receive money (interest) [1 mark].

Profit is the reward for enterprise [1 mark]. People who take risks receive money (profit) in return [1 mark].



OCR GCSE (9–1) Economics Workbook Answers

State benefits are received by people who have low incomes or are unemployed, retired etc. [1 mark].
They are received as a right or as an obligation of the state [1 mark].

- 2 A flow of money is income received over time [1 mark], usually in return for a service (work) [1 mark], or money flows from households to firms in buying products [1 mark] and then flows to households in return for work [1 mark].
- 3 Any three from: houses; furniture; electrical goods; cars; land; savings etc. [3 marks].
- 4 a $£[35,000 + 65 + 1,410 + 5,200]$ [1 mark] = £41,675 [1 mark]
b $£[6,500 + 11,500 + 225,000 + 12,000]$ [1 mark] = £255,000 [1 mark]

Note: pension contributions come from present income. It is your pension fund that is part of wealth.

In both cases the correct answer is worth 2 marks. It **must** have the £ sign.

- 5 Any three from: differences in wages; income earning assets unevenly distributed; reliance on benefits; age; gender.
1 mark for each correct cause and 1 more for each development/outline.
- 6 Any three from: inheritance; savings; property ownership; business ownership (enterprise).
1 mark for each correct cause and 1 more for each development/outline.
- 7 Two from: poverty and deprivation; poor housing; poor health; poor education/inequality of opportunity.
2 marks for stating the consequences; 2 more marks for description of these consequences.

Exam-style questions

- 3 Income is the reward to a factor of production for the service given. It consists of wages, rent, interest and profit. It is a flow of money. Wealth is the market value of all the assets owned by a person at a specific point in time. Wealth is a stock of assets, e.g. houses or land.
2 marks for a complete explanation of both. 1 mark for a clear statement of one of them or a brief idea of both.
- 4 Possible content (other points may be equally acceptable):
- Differences in the distribution of both income and wealth among a population have similar consequences.
 - Both can lead to poverty, inadequate housing for some, poor health and poor education.
 - Differences in income allow people who have more income to buy better education and health. This means that advantages can be passed on to the next generation.
 - Those who cannot afford to buy health may either have to wait for a long time to get treatment, e.g. through the NHS, or be denied treatment, as in many countries.
 - Higher incomes mean better housing. In developing countries those with low incomes may have to live where there are inadequate services, meaning that health etc. suffers.
 - Differences in wealth provide similar advantages. The difference is that wealth can perpetuate these differences.
 - Someone who comes from a disadvantaged background may be able through education and/or work to gain a high income, but wealth is an accumulation over time.



OCR GCSE (9–1) Economics Workbook Answers

- Wealth provides an income from its assets which can boost income from working. It consists of assets which can be turned into money if required and thus support the differences.

Note: there is no one correct answer, but one possibility is:

Overall, although the consequences are similar it is likely that the consequences of wealth distribution are longer lasting and contribute to any income differences. They are not only equal but may be greater than those of income.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to both income **and** wealth, the maximum you can gain is 5 marks.

3.4 Price stability

Practice questions

- 1 No [1 mark] because it means that the average level of prices (or CPI) is going up, so some could be staying the same or falling [1 mark].

- 2 The price level has risen continuously across the period [1 mark]. The rate of increase initially rose, 2016–17, and then fell from 2017 to 2020. In 2021 it started to rise again [1 mark].

Note: there are no marks for just repeating the years and figures.

- 3 New price = £2.20 × 6% [1 mark] + £2.20 = £2.33 [1 mark]. Correct answer worth 2 marks.

- 4 Price increase = $\frac{0.26}{2.60} \times 100 = 10\%$ [1 mark]

Inflation rate is 6%, so tray bakes have risen by $10 - 6 = 4\%$ more [1 mark].

- 5 a £400 × 10% = £40 [1 mark]. New wage = £440 [1 mark]. Correct answer worth 2 marks.

b 5% of £400 = £20 [1 mark]. The real value is £20 [1 mark]. Correct answer worth 2 marks.

- 6 The CPI is calculated by using a basket of goods and services representing what the average family buys. Each item is given a weight to show its relative importance. The initial prices are recorded and then each month new prices are gathered and the average price change recorded.

2 marks for a clear idea along these lines. 1 mark for some idea, perhaps just the first sentence.

- 7 Price rise = $\frac{30}{60} \times 100$ [1 mark] = 50% [1 mark]

- 8 It increased in every year except 1988 [1 mark]. It was much higher before 1987 than afterwards [1 mark]. The second mark can be gained for any sensible comparison over the period.

- 9 Demand-pull inflation is when aggregate demand rises [1 mark] faster than aggregate supply, forcing prices upwards [1 mark].

- 10 Cost-push inflation is when the costs of production rise [1 mark] by more than any increase in productivity, so prices rise [1 mark].



OCR GCSE (9–1) Economics Workbook Answers

- 11** As the price level rises, real wages fall. Workers demand higher money wages to compensate [1 mark]. This pushes production costs up, so prices rise, leading to the same process [1 mark].
- 12** If there is more money, people can demand more products [1 mark]. This leads to their prices rising and demand-pull inflation [1 mark].
- 13** Any three from: loss of consumer confidence; shoe-leather costs; fall in real incomes; debtors gain; income distribution may worsen.
1 mark for each consequence and 1 mark for each development/outline: $3 \times 2 = 6$ marks.
- 14** Savings will lose value as interest rates will not keep up with high rates of inflation [1 mark], so savers can buy fewer products with their savings [1 mark].
- 15** Any three from: greater flexibility; menu costs; labour market conflicts; unemployment; producers as creditors; lack of confidence.
1 mark for each consequence and 1 mark for each development/outline: $3 \times 2 = 6$ marks.
- 16** Any three from: government as debtors; greater expenditure on benefits; greater expenditure on wages; more revenue; need to implement inflation policies.
1 mark for each consequence and 1 mark for each development/outline: $3 \times 2 = 6$ marks.

Exam-style questions

- 3** General price level rise = $\frac{6}{110} \times 100$ [1 mark] = 5.45% [1 mark] (or = $\frac{116}{110} = 5.45\%$). Correct answer worth 2 marks.
- 4** Possible content (other points may be equally acceptable):
- Across the whole period prices rose.
 - In year 2 they rose at a declining rate.
 - Year 3 saw the price level fall.
 - The fall in the price level, especially as it is small, does not mean all prices fell.
 - Years 4–6 saw prices rise.
 - The price rise tripled in Year 5.
 - The Year 6 price rise was the same as in Year 5.

Marking:

1 mark for knowledge (AO1a), which will possibly be recognising that changes in inflation mean changes in prices.

2 marks for application (AO2): reference to the years/figures.

3 marks for analysis (AO3a): comments on the changes in the prices together with an overall statement that prices rose across the period.

In the exam the marks are awarded in three levels:

- L3 5–6 marks – AO1a – 1, AO2 – 2, AO3a – 3
- L2 3–4 marks – AO1a – 1, AO2 – 1, AO3a – 2
- L1 1–2 marks – AO1a – 1, AO2 – 0, AO3a – 1



If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

3.5 Fiscal policy

Practice questions

- 1 Any three from: pensions; health; welfare; education; defence; law and order; transport; central government; foreign aid; environment; culture; financial.
1 mark for each named and 1 mark for each development: $3 \times 2 = 6$ marks.
- 2 Any one from: increase the welfare of the population; provide everyone with a basic minimum standard of living; reduce inequality in the distribution of incomes; protect the country and its people.
1 mark for the reason and 1 mark for some development.
- 3 Any three from: inheritance tax; capital gains tax; corporation tax; national insurance contributions [1 mark].
- 4 Any two from: excise duties, e.g. taxes on tobacco, alcohol, petrol; insurance premium tax; air passenger duty; gambling duties [1 mark].
- 5 Income tax is a direct tax because it is directly levied on (charged to) the person who pays; alternatively, it is a tax on the income and wealth of individuals/companies [1 mark].
VAT is an indirect tax as the people on whom it is imposed can pass all/some on to the final consumer; alternatively, it is a tax on consumption of goods and services [1 mark].
- 6 A budget deficit is when **government spending is greater than government revenue** [1 mark].
- 7 A budget surplus is when **government revenue is greater than government spending** [1 mark].
- 8
 - a More government spending on education and health (or any other area of spending) means that there is more money for wages, so incomes rise. This means there is more consumer spending, so more goods and services are produced [1 mark]. Increased production results in higher GDP and thus economic growth [1 mark].
 - b If the government provides more money for education and health (or any other area of spending), more people can be employed, reducing unemployment [1 mark]. These people spend money, so more products are needed, leading to further employment, so low unemployment is achieved [1 mark].
 - c Government spending on education and health will enable poorer people to gain education needed for better-paid jobs because it is now affordable, while better/more affordable healthcare will allow them more opportunities for work. (Money spent on housing will enable them to have a home and be healthier etc.) This will help to improve equality in society [2 marks].
- 9 Increasing government revenue through raising direct taxes means that people have less money in their pockets to pay for goods, so aggregate demand falls [1 mark]. This means that the rise in the price level declines, leading to a fall in inflation [1 mark].
- 10
 - a This is the amount of income you can receive in a year without having to pay any income tax [1 mark].
 - b Tax paid = $\pounds[30,000 - 12,570] = \pounds 17,430$ [1 mark] $\times 20\% = \pounds 3,486$ [1 mark]
- 11 Total cost = $\pounds 35 \times 20\% = \pounds 7$ [1 mark] + $\pounds 35 = \pounds 42$ [1 mark]



OCR GCSE (9–1) Economics Workbook Answers

- 12 An increase in income tax could mean that some workers think it is no longer worth working at all or may decide that overtime etc. is not worth doing, so supply of labour falls [1 mark]. On the other hand, some workers might work more to make up for the loss in take-home pay [1 mark].
- 13 A fall in corporation tax would allow firms to keep more profit. This could then be invested in new buildings, machinery etc. [1 mark]. Equally, a rise in corporation tax means that investments could fall, especially those investments where the return is expected to be low [1 mark].
- 14 The effect of an increase in VAT will depend on the **price elasticity of demand** of the good or service [1 mark].
- 15 Assuming that all or most of the increase was spent on buildings or infrastructure, there would be greater demand for the construction industry, leading to growth in the size of firms and greater profits [1 mark]. Even if this was not the case, more spending would result in incomes increasing and some of this might be spent on new houses and extensions to existing ones [1 mark]. This would again result in growth of the industry and greater profits [1 mark].
- 16 To maintain a balanced budget while increasing spending on defence, the government could either raise taxes [1 mark] or spend less on, e.g., education [1 mark]. The latter is an opportunity cost as education is forgone for defence [1 mark].
- 17 Any two from: more imports, and possibly less exports; inflation; saving rather than consuming.
1 mark each for the costs and 1 mark each for the two developments/outlines [4 marks].
- 18 Any two from: increase economic growth; control [decrease] inflation; achieve low unemployment; greater equality of income and wealth; improve the balance of payments account [2 marks].
- 19 The following are illustrations of answers. In each case, 1 mark for a basic statement and 1 mark more for some outline/development.
- a Too much spending or reduction in taxes can result in excess growth, leading to inflation.
 - b Increased benefits could result in higher unemployment as workers decide there is no need to work.
 - c Increased taxes could either lead to greater tax avoidance or could see more highly paid people move abroad, so tax revenue is less.
 - d Expansionary fiscal policy could result in excess demand, leading to inflation and price instability.
- 20 Income tax [1 mark], but you could choose another direct tax.
For 2022/23 there is a tax-free personal allowance of £12,570 [1 mark].
Tax bands: £0 to £37,700 = 20%; £37,701 to £150,000 = 40%; £150,001+ = 45% [1 mark].
- 21 Reduce VAT or another indirect tax [1 mark] and/or remove VAT from basic goods bought more by the less well-off [1 mark].
- 22 Every family should have at least a minimum standard of living [1 mark], ensuring that everyone has somewhere suitable for living and sufficient food [1 mark]. It should also enable all to access healthcare and education, with the latter offering the chance for higher future incomes [1 mark].
- 23 Any two from: disincentives to work; effect on promotion; people might move abroad; could reduce the production of the economy; reduction in savings; encourages more tax avoidance and even tax evasion; reduces business investment.
2 marks for the negative effects and 1 mark each for development: $2 \times 2 = 4$ marks.

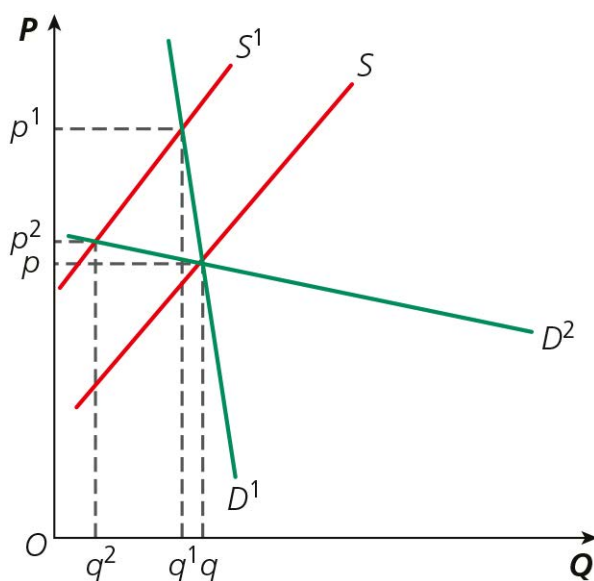
Exam-style questions



OCR GCSE (9–1) Economics Workbook Answers

3 Possible content (other points may be equally acceptable):

- VAT is a percentage tax on purchasing of goods and services.
- An increase in VAT will reduce demand by increasing prices.
- The effect of a VAT increase depends on the *PED* for clothes.
- Essential clothes may be *PED* inelastic.
- Non-essential clothes could be *PED* elastic.
- Customers may be able to afford higher prices, so *PED* is inelastic.
- If they sell young children's clothing, this is zero rated for VAT.
- Diagram (not required by the question):



Marking:

1 mark for knowledge (AO1a), which could be defining VAT or drawing and labelling the diagram correctly.

2 marks for application (AO2): for linking VAT to Frederika's business.

3 marks for analysis (AO3a): if a diagram has been drawn, marks could be from correctly explaining it; if no diagram, then from explaining how different *PED* values will result in different outcomes. 1 of these marks for correctly shifting the supply curve if a diagram is drawn.

In the exam the marks are awarded in three levels:

- L3 5–6 marks – AO1a – 1, AO2 – 2, AO3a – 3
- L2 3–4 marks – AO1a – 1, AO2 – 1, AO3a – 2
- L1 1–2 marks – AO1a – 1, AO2 – 0, AO3a – 1

If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

4 Possible content (other points may be equally acceptable):

- Budget deficit
- Inflation may increase



OCR GCSE (9–1) Economics Workbook Answers

- Could squeeze out the private sector if spending only on public sector
- Spending can be directed at poorer people or at services they need
- Could lead to more jobs
- How much will go to poorer people and how much to those with higher incomes/more wealth?

Note: the question says ‘consequences of a government’, so you need to make sure this is what you are focusing on.

Marking:

1 mark for application (AO2), which refers to the views of Iona and Anna.

2 marks for analysis (AO3a), which explains the two views and their advantages and disadvantages.

3 marks for evaluation (AO3b), which will compare the two sides, coming to a supported conclusion.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Iona and Anna, the maximum you can gain is 5 marks.

3.6 Monetary policy

Practice questions

- 1 Bank of England [1 mark] or Monetary Policy Committee [1 mark].
- 2 Low and stable rate of inflation [1 mark].
- 3 If the Bank wants to increase economic growth or reduce unemployment, or if inflation is falling, it will cut interest rates [1 mark] to boost demand for goods and services and for labour, and to increase prices to the target level [1 mark]. If the Bank wants to cut inflation, it will raise interest rates [1 mark], so people consume less and save more, lowering demand [1 mark].
- 4
 - a The Bank of England buys bonds/investments/assets from the financial institutions [1 mark]. This gives the institutions more money to lend to individuals and firms [1 mark]. This increases consumption and investment in the economy [1 mark].
 - b Economic growth [1 mark] and low unemployment [1 mark].
- 5
 - a To increase economic growth, interest rates can be cut to stimulate demand [1 mark]. The Bank of England could also increase quantitative easing (QE), so there is more money in the economy, again increasing demand [1 mark].
 - b To reduce unemployment, interest rates can be cut to stimulate demand and thus demand for labour [1 mark]. The Bank of England could also increase quantitative easing (QE), so there is more money in the economy, again increasing demand and demand for labour [1 mark].

Although the answer is similar to economic growth, note ‘demand for labour’.



OCR GCSE (9–1) Economics Workbook Answers

- c To achieve price stability, interest rates could be raised if the rate of inflation is above the target rate to lower demand [1 mark]. If the rate of inflation is well below the target rate, interest rates could be cut to increase demand [1 mark].
- 6 If interest rates fall, the opportunity cost of consuming and not saving will be less [1 mark]. This will lead to an increase in demand for goods and services [1 mark].
- 7 If interest rates rise, borrowing will cost more [1 mark]. This will lead in most cases to a fall in the amount people want to borrow [1 mark].
- 8 If interest rates fall, the opportunity cost of consuming and not saving will be less [1 mark]. This will lead to a fall in savings [1 mark].
- Alternatively, if interest rates fall, so will savings [1 mark], although this might not happen if the fall in interest rates is only small, e.g. 0.25% [1 mark].
- 9 If interest rates rise, investment should fall as it is more expensive to borrow/the return on saving is greater [1 mark]. If firms are optimistic about the economy, however, it might have little or no effect [1 mark].

Exam-style questions

- 3 Possible content (other points may be equally acceptable):
- Inflation will be brought down.
 - Keeping inflation under control is good for the bank and its customers.
 - Price stability means that customers will gain confidence.
 - The cost of rising interest rates might force some customers to default on loans.
 - Price stability will encourage people to borrow more from the Bank.
 - The effects depend on the size of the increase and how effective it is.

Marking:

1 mark for knowledge (AO1a), which might be knowing that inflation will fall.

2 marks for application (AO2): clear reference to both the bank itself and its customers.

3 marks for analysis (AO3a): explanation of how the rise in interest rates would lead to price stability and the effect of this on both the bank and its customers, using some of the points above.

Note: to score well there must be clear, though not equal, reference to both the bank and its customers.

In the exam the marks are awarded in three levels:

- L3 5–6 marks – AO1a – 1, AO2 – 2, AO3a – 3
- L2 3–4 marks – AO1a – 1, AO2 – 1, AO3a – 2
- L1 1–2 marks – AO1a – 1, AO2 – 0, AO3a – 1

If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

- 4 Possible content (other points may be equally acceptable):
- Customers would be inclined to borrow less and save more.
 - Customers who are businesses might face a fall in demand and go out of business.



OCR GCSE (9–1) Economics Workbook Answers

- Customers might not be able to pay back loans.
- The bank might lose money if customers default.
- A higher rate should increase the bank's profits as loan rates will rise faster than savings rates.
- Effects depend on: the size of the increase; consumer/producer confidence etc.

Marking:

1 mark for application (AO2), which will be gained by linking your argument to the bank and its customers.

2 marks for analysis (AO3a): explanation of how the rise in interest rates would affect both the bank and its customers, using some of the points above.

3 marks for evaluation (AO3b), which will address 'how' and show realisation that the effects will be different and dependent on size of the increase etc.

Note: to score well there must be clear, though not equal, reference to both the bank and its customers and to 'how'.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to both the bank and its customers, the maximum you can gain is 5 marks.

3.7 Supply-side policies

Practice questions

- 1 Supply-side policies improve an economy's **productive capacity** [or **potential**] and its ability to **produce** more output, so that a rise in demand in an economy, leading to higher GDP, will not lead to **inflation** [1 mark].
- 2 Government spending on education and training improves human capital, so workers are more skilled and productive [1 mark]. This will result in greater output and thus aggregate supply [1 mark].
- 3 Cutting direct taxes means that workers have more money in their pockets [1 mark], so are likely to consume more, thus leading to more output and, therefore, more employment to make the output [1 mark]. Cutting benefits may price people into work as they cannot afford to be unemployed [1 mark], so employment increases and there is greater output [1 mark].
- 4 Privatisation is the transfer of assets from the public sector to the private sector [1 mark], usually by the government selling off businesses or industries [1 mark].
- 5 Any two from: reduction of trade union power; competition policy; development of infrastructure; reducing direct taxes on firms.

1 mark for each policy and 1 mark for each development/outline: $2 \times 2 = 4$ marks.



OCR GCSE (9–1) Economics Workbook Answers

- 6 Supply-side policies can take a long time to fully come into action, i.e. time lag [1 mark]. For instance, a decision to spend more on education may take 13 years or more to work through the system [1 mark].
- 7 Money used to improve education and training could have been used to develop more roads and rail lines [1 mark]. The latter is the opportunity cost of the former [1 mark].
- 8 Any two from: cost of implementation; resistance to policies; equity issues; unintended effects. The first two could be split so, e.g., two different costs of resistance to policies are given, so long as they are different [2 marks].
- 9 Any two policies (probably from questions 2–5) [2 marks] and then a description of their benefit(s) to the economy [1 mark each]: $2 \times 2 = 4$ marks.
- 10 Supply-side policies make the product and labour markets more efficient, so productivity increases [1 mark]. This means that any increase in aggregate demand can be met by an increase in aggregate supply, thus preventing a rise in inflation [1 mark].
- 11 Supply-side policies increase efficiency and productivity, so the UK can be more competitive in terms of price and quality [1 mark]. This means that exports should increase and imports may fall, thus improving the balance of payments [1 mark].

Exam-style questions

- 3 Competition policies are aimed at controlling monopoly power and encouraging new firms to enter the market [1 mark]. This results in lower prices, thus increasing demand, and in greater output, leading to higher GDP and thus economic growth [1 mark].
- 4 Possible content (other points may be equally acceptable):
 - Cutting direct taxes on workers will encourage consumption.
 - Cutting direct taxes on producers will encourage investment.
 - Both consumption and investment are part of GDP.
 - More consumption and more investment are likely to lead to more employment.
 - Investment and workers' willingness to work more due to lower taxes should increase aggregate supply and thus combat inflation.
 - Better healthcare will increase productivity and thus increase GDP.
 - Greater productivity will lead to aggregate supply increasing.
 - Competition policy will lead to more output at lower prices, thus increasing growth and reducing inflation.
 - There may be time lags and resistance to one or more policy.

Marking:

1 mark for application (AO2), which will be gained by linking a policy to an objective.

2 marks for analysis (AO3a), showing the effects of the policies on the objectives.

3 marks for evaluation (AO3b), which will address the 'extent to which' and 'achieve'. Need to consider how successful the policies will be in terms of the objectives, considering, e.g., time lags.

Note: to score well the 'extent to which' must be clearly addressed.

In the exam the marks are awarded in three levels:



OCR GCSE (9–1) Economics Workbook Answers

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to the objectives, the maximum you can gain is 5 marks.

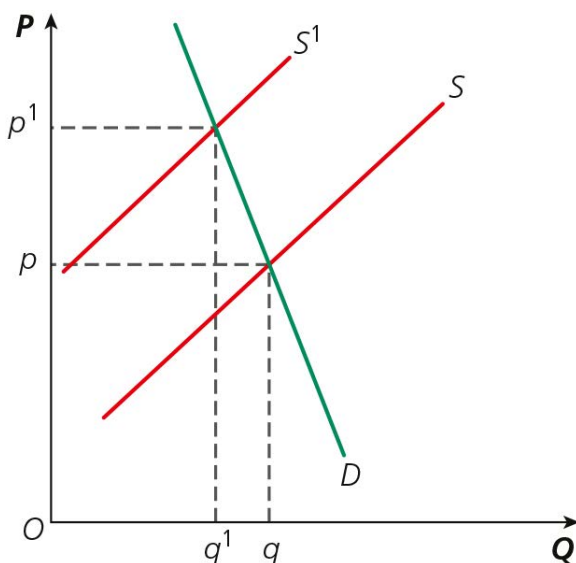
3.8 Limitations of markets

Practice questions

In questions 1–3 you may use any suitable example, so long as it answers the question.

- 1 A positive externality is a benefit to a third party [1 mark]. If a shop at Christmas has decorative lights and trees, all passers-by will benefit [1 mark]. Maximum: 2 marks.
- 2 A negative externality is a cost to a third party [1 mark]. A large lorry on a narrow road can force other vehicles to pull over and thus lose time, causing an external cost [1 mark]. Maximum: 2 marks.
- 3 Climate change can cause crops to fail [1 mark], thus visiting an external cost on to the farmer [1 mark]. Maximum 2 marks

4



1 mark for drawing and labelling the axes correctly.

1 mark for correctly drawing and labelling the original S and D curves.

1 mark for shifting the supply curve to the left and labelling it.

1 mark for showing pq and p^1q^1 correctly.

2 marks for outlining the effect of the tax. Maximum: 6 marks.

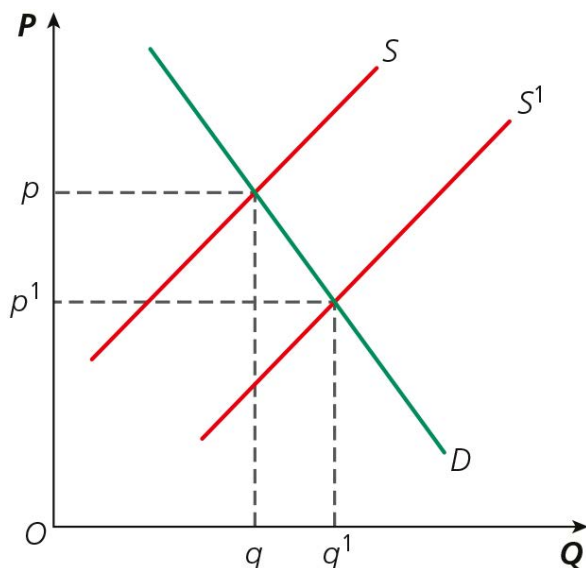
- 5 Subsidies are payment by governments to firms to reduce costs and increase output [1 mark], so prices will fall [1 mark].
- 6 Goods and services provided directly by the government [1 mark].



OCR GCSE (9–1) Economics Workbook Answers

- 7 The government wants everyone to be able to consume the service [1 mark], which would not be the case if left to the private sector, when some people could not afford to buy it [1 mark].
- 8 a Legislation is an Act of Parliament enforceable by law [1 mark].
b Regulation is rules, directives or government orders to control the way people and organisations behave [1 mark].
- 9 Possible examples are; campaigns to discourage smoking; messages on packets, bottles etc; calorie content of foods on menus; vaccination programmes etc.
1 mark each for any two sensible answers.
- 10 If demand for a product is price inelastic, putting a tax on it will not be **(very) effective** at reducing the quantity demanded.
- 11 A subsidy would lead to a fall in price and an increase in quantity [1 mark].

12



1 mark for correctly drawing and labelling the axes and the original S and D curves.

1 mark for correctly drawing and labelling the new supply curve.

- 13 Health services are provided free. This greatly increases the demand [1 mark]. The supply, however, is very inelastic in the short run [1 mark], so demand exceeds supply [1 mark].
- 14 Laws can be introduced to ban goods altogether, e.g. leaded petrol, certain drugs etc. [1 mark]. Legislation can also introduce regulations to restrict the supply of a good, e.g. nightclubs, drinking places etc. [1 mark].
- 15 This depends on consumer reaction. If it is generally receptive (PED is elastic), it will have a big effect [1 mark], e.g. most people had the coronavirus vaccination [1 mark] or another example. The campaign to get people to eat more fruit and vegetables has been less effective as PED is more inelastic [1 mark] because it requires a change in taste etc. [1 mark]. (Again, another example is fine.)
- 16 a Costs include: income distribution; black markets.
Benefits include: reduces negative externalities; government revenue.
b Costs include: opportunity costs.
Benefits include: reduction in prices; consumption of goods with positive externalities.
c Costs include: demand exceeds supply; opportunity costs.



OCR GCSE (9–1) Economics Workbook Answers

Benefits include: greater consumption; healthier/better educated; free/lower price.

d Costs include: black markets and criminal activity; opportunity costs.

Benefits include: immediate effect; more certain than taxation; can change attitudes.

e Costs include: can be ineffectual; opportunity costs.

Benefits include: cheaper than subsidies etc.; help with positive externalities.

1 mark for costs and 1 mark for benefits for each method: $5 \times 2 = 10$ marks.

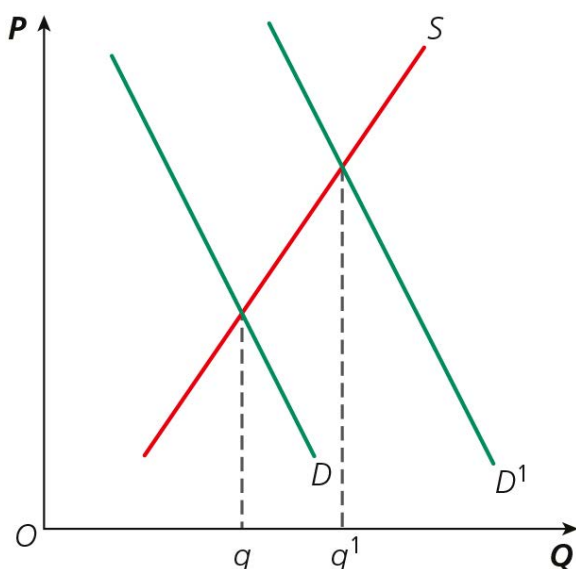
17 Opportunity cost is the next best choice forgone [1]. This could be spending on education, defence, social services etc. [1 mark].

Exam-style questions

3 Negative externalities are harmful effects of economic activities on third parties (or on those not involved in the activity) [1 mark]. 1 more mark for a relevant example, e.g. discharge of industrial waste into rivers affects those who use them, too many cars can cause congestion leading to pollution etc.

4 Possible content (other points may be equally acceptable):

- Encouraged consumption
- Reduced the number of Covid-19 cases
- Consumers were willing to have booster jabs once they had had the first two vaccinations
- Difficult to know how much effect it had
- Led to counter-information which might deter people
- Opportunity cost
- Diagram (not required by the question):



Marking:

1 mark for application (AO2), which is likely to be gained by referring to points in the extract.

2 marks for analysis (AO3a), which could be by correctly drawing and explaining the diagram (note: no prices as the vaccination was free, but increase in Q), or by explaining both views.



OCR GCSE (9–1) Economics Workbook Answers

3 marks for evaluation (AO3b), which addresses the costs and benefits of information policy, coming to a supported conclusion.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to the two views, the maximum you can gain is 5 marks.



Section 4 International trade and the global economy

4.1 Importance of international trade

Practice questions

- 1 The money flows from Belgium to the UK [1 mark].
Note: goods/services go in one direction and money in the other.
- 2 The money flows from the UK to Germany [1 mark].
- 3 Countries import and export because they have different resources and through trade can exchange these [1 mark]. Some countries are more efficient than others in some products, but less so in others, leading to specialisation in what they are best at [1 mark].
There is also 1 mark if you mention different opportunity costs in countries. Maximum: 2 marks.
- 4 Any three from: lower prices; better quality; more innovation/invention; greater choice [3 marks].
- 5 Any three from: larger markets and more consumers; economies of scale; greater efficiency from increased sales; access to more/better resources; greater specialisation [3 marks].
- 6 Free trade agreements lead to lower prices as there are no restrictions such as tax to increase them [1 mark]. Increased choice for both consumers and producers [1 mark].
- 7 27 (in 2022) [1 mark].
- 8 (Note: this question is about the EU free trade area and not about free trade in general.)
Producers have a far larger market to sell in, so can gain economies of scale and benefit from specialisation [1 mark]. (Note: any point about benefits of a larger market is worth the 1 mark.) In addition, they are protected by the common external barrier, so all producers in an industry face the same level of external competition [1 mark]. (Note: there must be some reference to this idea for 2 marks.) Maximum: 2 marks.
- 9 Costs for producers may include: greater competition; loss of customers; no longer protected by trade barriers; etc. Any 2 points outlined for 2 marks.

Exam-style question

- 2 Consumers will face lower prices [1 mark] because there will be more competition and firms will try to become more efficient so as to lower prices and undercut their rivals [1 mark].
1 mark for the basic advantage; 1 mark for the explanation.

4.2 Balance of payments

Practice questions

- 1
 - a Trade in goods and services shows the (balance of) earnings from exports [1 mark] and spending on imports [1 mark] of goods and services.
 - b Earnings by UK nationals from investments abroad (interest, profits and dividends) [1 mark] and by supplying labour abroad, minus those earned by non-UK nationals in the UK [1 mark].
 - c Transfers of money from one country to another [1 mark] without any exchange of goods or services [1 mark].



OCR GCSE (9–1) Economics Workbook Answers

- 2 a If a country has a current account surplus, the inflow of money is **greater** than the outflow of money, giving a **positive** number [1 mark].
b If a country has a current account deficit, **more money** is going out than is coming in [1 mark].
- 3 a Money coming in $\text{£}300\text{m} + \text{£}400\text{m} = \text{£}700\text{m}$. Money going out $= \text{£}375 + \text{£}300\text{m} = \text{£}675\text{m}$. Trade balance $= \text{£}700\text{m} - \text{£}675\text{m}$ [1 mark] $= \text{£}25\text{m}$ [1 mark] [2 marks for the correct answer].
b Current balance $= (\text{£}700\text{m} + \text{£}50\text{m} + \text{£}55\text{m} = \text{£}805\text{m}) - (\text{£}675\text{m} + \text{£}30\text{m} + \text{£}90\text{m} = \text{£}795\text{m})$ [1 mark] $= \text{£}10\text{m}$ [1 mark] [2 marks for the correct answer].
- 4 a Trade in goods has always been a negative balance [1 mark]. It worsened from 1970 to 1985, then improved to 2005 before worsening up to 2020 [1 mark].
b Trade in services has always been positive [1 mark]. It grew from 1970 to 2005, when there was a slight dip to 2010, before again increasing to its highest amount in 2020 [1 mark].
c Total trade balance has always been negative [1 mark]. It worsened from 1970 to 1985, then improved to 2005, after which it fluctuated [1 mark].

Note: in each of these three answers, just repeating the figures will score zero marks.

- 5 a Any three from: causes the exchange rate to fall, pushing up import prices and lowering the standard of living; increases the country's debt as export revenue does not cover the import expenditure; could reflect low productivity, which will take a long time to put right; may reflect falling demand for domestic goods, which can be linked to increased unemployment [3 marks].
b Any three from: if it is only short run due to importing more, e.g. capital goods to drive economic growth; reduces inflation as when imports are greater than exports it decreases the rise in prices; if exchange rate falls, exports become more competitive; if it is only a small percentage of GDP, the country will be able to pay back any debt [3 marks].
- 6 a Reflects rising demand for domestic goods as against imports; decreases the country's debt as there is a net inflow of money [2 marks].
b Any two from: if exports are greater than imports, this will increase aggregate demand/GDP, possibly increasing prices and inflation; if due to protectionist policies, this may cause future political and trade negotiation difficulties; if the exchange rate rises, this could decrease the competitiveness of UK goods [2 marks].
- 7 Any three from: structural problems in the economy, e.g. poor-quality and overpriced goods; falling incomes overseas, leading to a fall in exports; rising domestic incomes, leading to a rise in imports; a rise in the exchange rate, decreasing exports and increasing imports; a net outflow of investment income [3 marks].
- 8 Any three from: a fall in the exchange rate, leading to an increase in exports and a fall in imports; the strength of the economy with good-quality products at reasonable prices; lack of growth in the domestic economy, so there is less demand for imports; a net inflow of investment income [3 marks].

Exam-style questions

- 3 $(\text{£}225\text{bn} + \text{£}68\text{bn}) - (\text{£}125\text{bn} + \text{£}83\text{bn})$ [either 1 mark here] $= \text{£}293\text{bn} - \text{£}208\text{bn}$ [or 1 mark here] $= \text{£}85\text{bn}$ [1 mark]. Correct answer worth 2 marks.
- 4 Possible content (other points may be equally acceptable):
- Rise in exchange rates will decrease exports and increase imports
 - Result will depend on PED for exports and imports
 - If elastic, export revenue falls and import revenue rises



OCR GCSE (9–1) Economics Workbook Answers

- Poor-quality goods will lead to less exports
- Will also lead domestic consumers to prefer imports over home goods
- Similar result if goods are priced higher than competitors
- Other causes include: falling overseas incomes; rising domestic incomes; net outflow of investment income.

Marking:

1 mark for application (AO2), which will be gained by linking your argument to those of Sangeeta and Terry.

2 marks for analysis (AO3a): explanation of a number of points on how poor-quality/high-priced goods can affect the current account and similarly exchange rates.

3 marks for evaluation (AO3b), which will address the issue of the 'extent to which' by referring to one or more other possible causes.

Note: to score well the answer must address 'the extent'.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

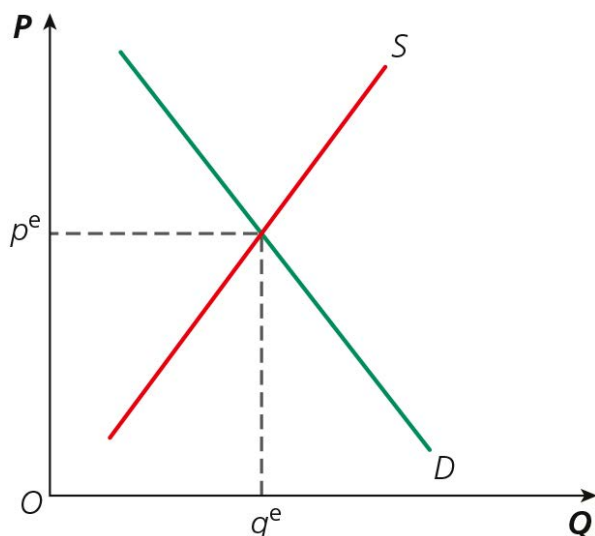
If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to Sangeeta's and Terry's views, the maximum you can gain is 5 marks.

4.3 Exchange rates

Practice questions

1



1 mark for correctly drawing and labelling the axes and the supply and demand lines.

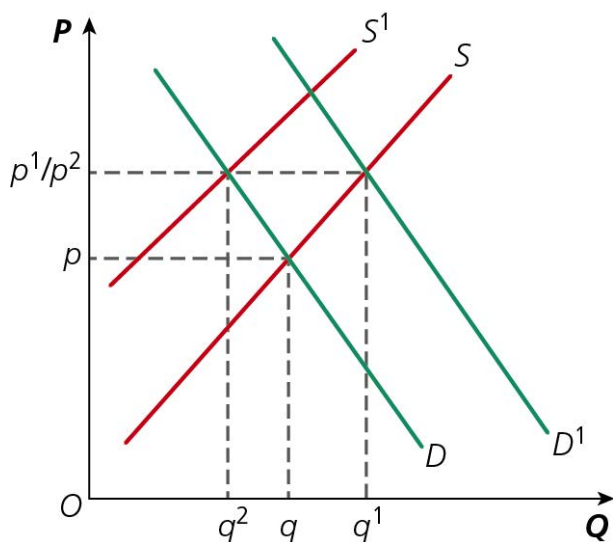


OCR GCSE (9–1) Economics Workbook Answers

1 mark for showing the equilibrium price and quantity.

2 a Increase in demand [1 mark]; decrease in supply [1 mark].

b



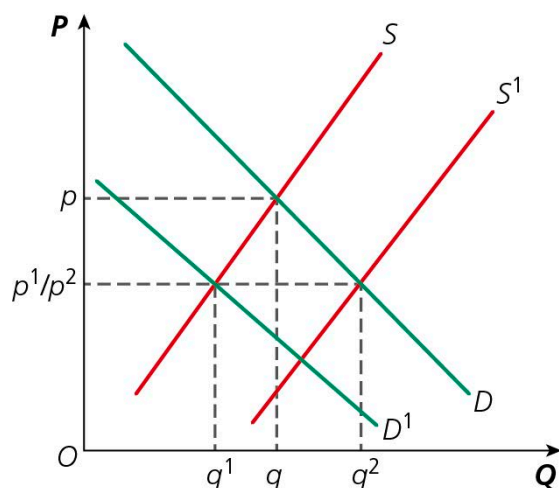
1 mark for correctly drawing and labelling the axes and the original supply and demand lines.

1 mark for drawing a new demand line to the right of the original, labelling it correctly and showing the new P and Q .

1 mark for drawing a new supply line to the left of the original, labelling it correctly and showing the new P and Q .

3 a Decrease in demand [1 mark]; increase in supply [1 mark].

b



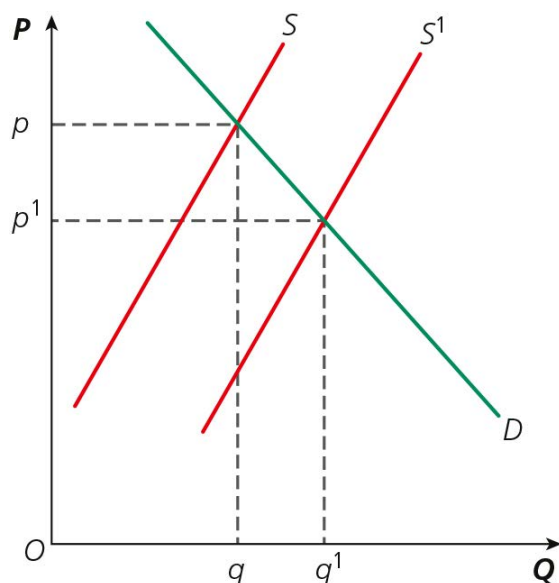
1 mark for correctly drawing and labelling the axes and the original supply and demand lines.

1 mark for drawing a new demand line to the left of the original, labelling it correctly and showing the new P and Q .

1 mark for drawing a new supply line to the right of the original, labelling it correctly and showing the new P and Q .



4



1 mark for correctly drawing and labelling the axes and the original supply and demand lines.

1 mark for drawing a new supply line to the right of the original, labelling it correctly and showing the new P and Q .

The price would fall [1 mark] because the supply of pounds would increase [1 mark].

- 5 Any four from: increase in UK exports; decrease in UK imports; rise in UK interest rates to attract inward money flows; increased investment in the UK by foreigners; increase in net transfers to the UK; speculation that the pound will rise [4 marks].
- 6 157×500 [1 mark] = ¥78,500 [1 mark] [2 marks for the correct answer]
- 7 $150/12$ [1 mark] = £12.50 [1 mark] [2 marks for the correct answer]
- 8 Over the whole period the value of Country T's exchange fell [1 mark]. It fluctuated across the years with a large fall to 2014 then a slight rise to 2017 followed by further fluctuations [1 mark]. (There are no marks for simply repeating the figures.)
- 9 Any three from: import prices rise, so consumers are likely to buy less imports; fall in the standard of living as consumers can buy fewer goods; consumers are less likely to take foreign holidays/more likely to take holidays at home; rise in the rate of inflation as import prices increase; increase in interest rates [3 marks].
- 10 Any three from: rise in import prices negatively affects producers dependent on imported raw materials; fall in export prices, leading to a rise in demand for UK exports; rise in import prices may lead consumers to substitute UK goods for them, thus benefiting producers; travel agents/airlines etc. suffer as foreign travel/holidays now more expensive; UK tourism benefits from both more tourists coming to the UK and people switching to UK holidays; possible rise in inflation, leading to wage demands etc.

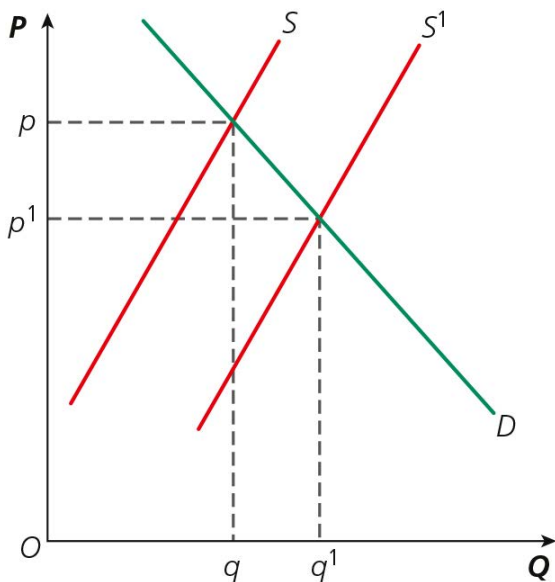
Exam-style questions

- 3 Possible content (other points may be equally acceptable):
- Travelling abroad is a service import for the UK.
 - The UK will supply more pounds to buy the foreign currency.



OCR GCSE (9–1) Economics Workbook Answers

- The supply line will shift to the right.
- The price of the pound will fall.
- The extent of the fall depends on *PED* of pounds.



Marking:

1 mark for knowledge (AO1a), which could be that foreign travel is an import for the UK or correctly drawing/labelling the axes.

2 marks for application (AO2): reference to Alicia and Akin; reference to more pounds being supplied.

3 marks for analysis (AO3a): correctly shifting the supply curve to the right; explanation of the diagram in terms of rightward shift in supply, leading to a fall in the value of the pound, the extent depending on the *PED*.

Note: failure to draw the correct diagram will limit you to a maximum of 4 marks.

In the exam the marks are awarded in three levels:

- L3 5–6 marks – AO1a – 1, AO2 – 2, AO3a – 3
- L2 3–4 marks – AO1a – 1, AO2 – 1, AO3a – 2
- L1 1–2 marks – AO1a – 1, AO2 – 0, AO3a – 1

If your answer has some knowledge, some application and some analysis, it must be at least at L2, 3 marks.

4 Possible content (other points may be equally acceptable):

- Producers relying on imports would benefit as prices would fall.
- Firms in the travel industry would benefit.
- The inflation rate would fall, so less pressure on costs and domestic consumption might rise.
- Cheaper imports mean that consumers switch from domestic goods to imports.
- Exporting is more difficult, unless *PED* is inelastic.
- There will be fewer consumers for the UK holiday industry.



OCR GCSE (9–1) Economics Workbook Answers

Marking:

1 mark for application (AO2), which will be gained by linking your argument to those of Alicia and Akin.

2 marks for analysis (AO3a): explanation of a number of points concerning how a high exchange rate would lead to higher export prices and lower quantity sold.

3 marks for evaluation (AO3b), which will address the issue of 'whether a rise in the foreign exchange value of the pound would be bad for UK businesses'.

Note: to score well the answer must address both sides of the argument.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to what Alicia and Akin say, the maximum you can gain is 5 marks.

4.4 Globalisation

Practice questions

- 1 **a** There are a large number of examples you could choose. A retailer needs to have outlets in many countries in different continents, e.g. Starbucks. A producer needs to be producing in one or more countries, but selling in many countries across the world, e.g. Toyota [1 mark].
b There must be some reference to being in many countries/continents [1 mark] and development of this point [1 mark].
- 2 **a** Greater trade means that countries can specialise in what they are better at [1 mark] and exchange these products for the specialisation of other countries. This increases output and economic growth [1 mark], and thus globalisation.
b Improvements in transport mean that it is easier and cheaper to move goods [1 mark] long distances, which encourages both sourcing goods and selling them in many countries [1 mark] worldwide.
c Worldwide foreign investment means that countries and businesses invest in many different countries [1 mark]. This enables these countries to increase output and to trade internationally [1 mark].
d Producers can easily communicate with outsourced suppliers and can see what they are producing etc. [1 mark, plus 1 mark if further developed]. Consumers can purchase goods and services easily from many countries and not just the one they live in [1 mark, plus 1 mark for development].
Maximum: 2 marks.
- 3 GDP per capita is a measure of economic growth [1 mark], which then links to increased output and employment [1 mark].
- 4 Any two from: life expectancy; access to healthcare; technology; and education. In each case 1 mark for a basic statement and a second mark for development: $2 \times 2 = 4$ marks.



OCR GCSE (9–1) Economics Workbook Answers

- 5 Any two from: wider markets; cheaper and wider range of resources; technological advances; cheaper and more skilled workforce [1 mark for the benefit and 1 mark for development].
- 6 Any two including: difficult to compete with cheaper producers; vulnerable to problems in the worldwide economy etc. [1 mark for the cost and 1 mark for development].
- 7 Any two from: increased employment due to increased output; increased employment due to greater investment; greater geographical mobility; more skilled jobs available [1 mark for the benefit and 1 mark for development].
- 8 Any two from: unemployment due to declining industries; unemployment due to technology; dependency on world markets; immigrants might replace workers [1 mark for the cost and 1 mark for development].
- 9 Any two from: wider range of goods; lower prices; better-quality and more innovative goods; travel opportunities; improved services [1 mark for the benefit and 1 mark for development].
- 10 Any two including: less choice/loss of local firms; price volatility etc. [1 mark for the cost and 1 mark for development].
- 11 The initial impact is often negative as domestic firms cannot compete with cheaper production abroad [1 mark]. In the longer run countries can produce products at which they are best and thus generate jobs, income etc. [1 mark].
1 mark for the first point and another mark for either development or a second point. Maximum: 2 marks.
- 12 The positive aspect is better quality and greater choice of goods at lower prices [1 mark]. The negative is the social impact of unemployment as some industries decline [1 mark].
- 13 Environmental damage could mean greater pollution [1 mark], which would lead to global warming and affect crops etc. in developed countries [1 mark].
1 mark for the first point and another mark for either development or a second point. Maximum: 2 marks.
- 14 Any two from: wider markets; access to new technology; increased foreign investment [1 mark for the benefit and 1 mark for development].
- 15 Any two from: loss of markets to firms in developed countries; loss of skilled and other workers, due to migration; lack of competitive edge [1 mark for the cost and 1 mark for development].
- 16 Any two from: increased employment to meet international demand; increased employment due to foreign investment; increased geographical mobility [1 mark for the benefit and 1 mark for development].
- 17 Any two from: unemployment due to increased use of technology/mechanisation; unemployment if there is a switch from labour-intensive primary industries to mechanised/automated secondary ones; vulnerability to volatility of world markets; increased gap between the rich and the poor; poor working conditions [1 mark for the cost and 1 mark for development].
- 18 Any two from: wider range of goods; access to global brands; better infrastructure; wider travel opportunities [1 mark for the benefit and 1 mark for development].
- 19 Any two from: rising prices/inflation; poorer quality of services; increased poverty [1 mark for the cost and 1 mark for development].
- 20 Due to more trade and economic development, less developed countries should benefit from higher tax revenues, less unemployment, increased output and economic growth [1 mark]. On the other



hand, if much of this is due to multinational companies, they could move elsewhere, which means that the benefits are much lower/do not last [1 mark].

- 21 The quality of life is likely to rise due to more employment and income, leading to less poverty [1 mark]. There may, however, be higher inflation and less cultural diversity [1 mark].
- 22 Increased production in less economically developed countries can result in environmental damage due to industrial processes that create **air** and **water** pollution as well as using up **(natural) resources** [1 mark].

Exam-style questions

- 3 There are two ways in which education can measure development. The first is the total number of people in school and higher education [1 mark]. The second is the percentage of the population who are literate/can read and write [1 mark].
- 4 Possible content (other points may be equally acceptable):
- Greater demand for goods creates more employment
 - More foreign investment also creates jobs
 - Opportunities to attain more skills
 - Higher incomes
 - Opportunity to move and work abroad
 - Unemployment as foreign firms use more technology etc.
 - More volatile economy, leading to possibility of more unemployment
 - Higher incomes for the few, but much greater inequality
 - Poor working conditions

Marking:

1 mark for application (AO2), which will be gained by linking your argument to those of Alina and Troy.

2 marks for analysis (AO3a): explanation of a number of costs and benefits to the workers of globalisation.

3 marks for evaluation (AO3b), which will compare the costs with the benefits and decide with a supported argument whether the benefits are greater (or less) than the costs.

Note: to score well the answer must address 'greater than'.

In the exam the marks are awarded in three levels:

- L3, 5–6 marks: AO2 – 1, AO3a – 2, AO3b – 3
- L2, 3–4 marks: AO2 – 1, AO3a – 1, AO3b – 2
- L1, 1–2 marks: AO2 – 0, AO3a – 1, AO3b – 1

If your answer has some application, some analysis and some evaluation, it must be at least at L2, 3 marks.

Equally, if there is no application to what Alina and Troy say, the maximum you can gain is 5 marks.



Multiple-choice questions

Question	Paper 1	Paper 2
1	(a)	(a)
2	(a)	(d)
3	(b)	(b)
4	(b)	(a)
5	(c)	(c)
6	(d)	(c)
7	(c)	(d)
8	(d)	(b)
9	(b)	(c)
10	(a)	(b)