1 (a) With reference to Figure 1 and Extract A, explain what is meant by 'price inelastic demand' (line 8).

(5)

(b) Examine **one** likely externality that arises when a producer generates electricity by burning gas. Use a diagram to show the external costs of production.

(8)

(c) With reference to Figure 2 and Extract B, discuss the possible constraints on business growth for firms supplying energy to households in the UK.

(12)

EITHER

(d) Evaluate the microeconomic and macroeconomic factors that explain gender-based wage differences in the UK oil and gas industry.

(25)

OR

(e) Evaluate the microeconomic and macroeconomic advantages for a country specialising in energy production using gas.

(25)

(a) With reference to Figure 1 and Extract A, explain what is meant by 'price inelastic demand' (line 8).

(5)

Extract E

There is a lot of money in chocolate but the growers of cocoa see very little of it.

In 2020 the chocolate retail industry was worth £78 billion, but Ghana – the world's second largest cocoa producer – earned just over £1 billion. Cocoa farmers in Ghana now make roughly $1 a day (this often includes being subsidised by the Ghanaian government). This is a familiar pattern for many African countries where the economy is still shaped by a colonial relationship in which they export commodities to be processed elsewhere.

Ghana currently processes about 30% of its cocoa crop into chocolate, meaning that the exports can earn high prices. Despite plans for expanding the domestic chocolate industry there are still many obstacles in the way. The equipment to make chocolate is very expensive and there is neither a local sugar nor dairy industry. Imported milk and sugar would increase the cost of production significantly, with the added problem that foreign currency would be needed. Producing chocolate requires consistent refrigeration, and the high cost of the equipment to achieve that is a major obstacle for entrepreneurs without substantial funds. There is an inconsistent supply of energy in rural parts of Ghana. An alternative, making teas and wines using cocoa, can make 20 times more revenue than the raw beans, but they do not have the mass market appeal and high profits of chocolate.

Access to funds is a big problem and one farmer, Nana Aduna, says that high interest rates on bank loans are an issue for start-up businesses and at the moment he cannot afford to borrow money. "You cannot grow a business when you have to service interest rates of 18%–20% or even more," he says.

But the government has pledged to address these structural issues, using supply side policies. The Trade and Industry Minister announced that industrialisation is the focus of government policy. "It only makes sense that the most important commodity in our country, which is cocoa… should become the target for a major programme of industrialisation," he says.

The 'One District One Factory' programme aims to kickstart industrialisation by providing the infrastructure for Ghana's farms, by establishing processing plants in some of the big cocoa-growing areas. It has become easier for the private sector to invest in food processing, and there is a big tax rebate available to processing companies that set up in the country's enterprise zones – designated areas to encourage economic activity – in a bid to help them export.

(Source: adapted from https://www.newsbreak.com/news/2201853748349/ghana-s-farmers-eye-sweet-success-from-chocolate and https://www.indepthnews.net/index.php/the-world/africa/4495-ghana-starts-with-cocoa-to-end-neocolonial-trading-ties and https://www.brookings.edu/blog/africa-in-focus/2020/09/03/pathways-to-structural-transformation-of-the-ghanaian-economy-and-some-roadblocks/ and https://www.ghanaweb.com/GhanaHomePage/business/Speculators-driving-interbank-retail-FX-rates-gap-1468375)

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(c) Discuss factors influencing the level of aggregate demand in Ghana. Use an aggregate demand and aggregate supply diagram in your answer.

(12)

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

1(e)

Knowledge 4, Application 4, Analysis 8, Evaluation 9

Microeconomic advantages may include:

- Firms experience increased efficiency/ economies of scale
- Lower costs for firms and higher profits (might be shown using cost/revenue diagram)
- Greater revenue for firms from greater exports
- Greater revenue for firms due to specialism adding value/demand more inelastic
- Less dependence on energy imports
- Efficient allocation of resources: refer to PPF
- Consumers get energy at lower prices: impact on consumer surplus
- External benefit
- Impact on demand for labour & wages in the sector

Macroeconomic advantages may include:

- Export-led economic growth (link to AD) and multiplier effects
- Benefits of comparative (Ricardo) or absolute advantage (Smith)
- Greater output and living standards
- More employment opportunities
- Greater tax revenue to the government
- Reduced inequality within the country
- Energy security and supply stability
- Impact on current account
- Attracting Foreign Direct Investment boosts capital inflows
- Lower costs increase short-run aggregate supply • Impact on inflation

NB for a Level 4 response there must be use of both micro and macroeconomics and use of given data with reference to gas. Changes in growth, trade for example, can be used as either micro or macroeconomics.

Knowledge, application and analysis		
Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Displays ability to apply knowledge in context but will focus on small range of elements. Demonstrates understanding by identifying relevant information. Demonstrates knowledge and understanding of terms, concepts, theories and models.
Level 2	5–8	Shows ability to apply economic ideas and relate them to economic problems in context. Displays knowledge and understanding of economic principles, concepts and theories to make limited analysis or narrow analysis.
Level 3	9–12	Analysis is clear and coherent with evidence well integrated, although may focus on some of the broad elements of the question more than others. Shows ability to apply economic ideas and relate them directly to the broad elements in the question.
Level 4	13–16	Analysis is relevant, clear and coherent with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems covering both microeconomic and macroeconomic effects. A clear understanding of economic principles, concepts, theories and arguments.

Evaluation		
Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–3	Identification of evaluative comments without explanation.
Level 2	4–6	Evaluative comments with limited explanations. Evidence of evaluation of alternative approaches which is generic or unbalanced leading to limited judgements.
Level 3	7–9	Evaluative comments supported by relevant reasoning and appropriate reference to the context. Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made.

Question Number	Indicative content	Mark
2(a)	**Knowledge 2, Application 2, Analysis 1** **Knowledge and analysis:** **Up to 3 marks; points might include:** • Managed exchange rates have some government intervention/limited market forces (1) • Prevent volatility (1) to encourage investment (1) • Encourage stability (1) to increase economic growth (1) • Controlling inflation (1) e.g. via impact on import prices (1) • Maintain competitiveness of exports (1) to improve current account (1) • Governments might buy a foreign currency increasing it's demand (1) to increase its price (1) • Governments might sell a currency (1) to decrease its price (1) • Supply & Demand diagram showing impact of change in supply/demand of currency (2) • Diagram illustrating keeping fluctuations of currency within acceptable range (2) • Increase in interest rate (1) to increase value of the country's currency (1) (or vice versa) • Exchange rate floats due to market forces (1) when within an acceptable range (1) **Application (2 marks for 1 point, or 1 + 1)** Award valid data use only e.g. • 'Substantial swings' (line 4 Extract D) (1) • 'On average the cedi has depreciated 98% against the US dollar' (1) • 'The cedi to US dollar rate has been very volatile' (1) • 'From 1983 to 1992 it operated a managed exchange rate' (1) • Other relevant application (1)	**(5)**