AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.2.1.4 USES OF NATIONAL INCOME DATA

SCORE	PERCENTAGE
/195	%

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1.

Areas for discussion include:

- definitions/explanations: cost of living, standard of living, rise in the value of the pound, exchange rate
- explaining the possible causes of a rise in the value of the pound
- explaining the cost of living in terms of the change in CPI/RPI
- explaining how a sustained rise in the value of the pound may affect the cost of living:
  - by reducing import costs (such as raw materials)
  - by leading to improved purchasing power (such as cheaper foreign holidays)
- explaining how a sustained rise in the value of the pound may affect the standard of living:
  - due to the impact on incomes and employment
  - due to the impact on consumption possibilities
  - due to the impact of the consumption of merit/demerit goods
  - due to the impact on education/health due to changing patterns of consumption
  - due to domestic job losses leading to lower disposable income
- considering the impact depends upon different stakeholder groups (for example those on fixed incomes may be more impacted)
- considering that the appreciation of the currency may be self-correcting eventually
- considering the possible subjective nature of living standards
- considering that due to the volatile nature of exchange rates, firms may not pass on benefits depending on the elasticities of demand
- considering the overall benefits of exchange rate changes may be offset by changes in other macroeconomic objectives.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by argumentsand/or data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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2.

Introduction	• sustained economic growth • public sector v private sector origins • private sector consumption • standard of living • measures of living standards.
Developing the response to the question: **Application / Analysis**	• higher living standards as the ultimate objective in securing sustained economic growth which will include, importantly, private sector consumption • the other benefits of growth in terms of the balance of payments on current account, the attractions of a growing economy to overseas investors, and to employment, but some of these ultimately have a link with private sector consumption • economic growth and material well-being • economic growth and the quality of life • economic growth and the increased resources available for environmental purposes • measures such as the Human Development Index showing that income per head is one small part of a bigger picture • reference to the UK and/or other economies • use of diagrams.
Evaluation	• the necessity of sustaining the growth process if there is to be a significant impact on income per head • negative economic growth causing average incomes to come under pressure • the motivation/reasons for securing sustained growth will vary with the individual country and government with the ultimate objective perhaps being more political rather than economic. • the weakness of certain aspects of the macroeconomy may be the reason for securing growth and the secondary impact on private sector consumption seen as a bonus • the benefits to income per head may pale into insignificance if sustained growth really has meant environmental protection and conservation of resources, rather than, as some view it, just growth without conflict with other macroeconomic objectives such as stable prices • individuals may welcome the initial boost to incomes but then recognise that this has come at a price in terms of their quality of life • a final judgement on whether sustained growth is really only sought for securing higher income per head.

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	Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.

[25]

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3.

Introduction	• high unemployment • types of unemployment • exchange rate • depreciation/appreciation.
Developing the response to the question: **Analysis and Application**	• the impact of changes in the exchange rate • the possible benefits of exchange rate depreciation to employment – cheaper exports, more expensive imports • the export-led multiplier • why exchange rate depreciation may not work • solution to the problem versus temporary relief • world trading conditions • the ability to meet higher demand for exports arising from exchange rate depreciation (elasticity of supply) • the importance of supply-side reforms • the impact of protectionism and the wisdom of it to help protect jobs • the types of unemployment which may be helped by exchange rate depreciation • reference to the UK and/or other economies • use of diagrams.
Evaluation	• by how much the exchange rate falls may be significant • the duration of the weakened exchange rate • whether exchange rate changes can ever provide a solution • the cause(s) of the depreciation may be significant, e.g. lower interest rates which may be the more important impact on unemployment than the change in the exchange rate itself • how bad the unemployment is and its causes in order to assess the relevance of a lower exchange rate • the state of overseas markets • the extent to which exporters pass on the benefits of the lower exchange rate in overseas prices • the importance of elasticity of demand for exports and imports • the importance of a sound supply-side underpinning any advantage given by the exchange rate • whether the impact of higher import prices, for example, on inflation, negates any benefit to employment through the exchange rate depreciation • a final judgement on to what extent exchange rate depreciation is really of any significance.

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[25]

4.

For • defining unemployment • making reference to official measures of unemployment • explaining types of unemployment

The impact on AD as average incomes fall reducing household spending power and a consequent fall in confidence discouraging business investment. In contrast, AD will be influenced if businesses may make greater efforts to secure export markets, while government spending may increase to help the unemployed.
Changes in government spending and taxation and the economic impact of these.
Impact on government finances as spending increases but tax revenues fall.
Overall impact on economic growth.
The problem of rising inequality.
The waste of resources so that the economy operates at less than full capacity.
Any other valid point.

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The effect on living standards generally as consumption of goods and services, such as food and alcohol, is curtailed. The quality of life is affected as spending limits are placed on, for example, heating and holidays. The type of housing may need to be reconsidered as a mortgage or existing rent become unaffordable.
The level of income in particular and the impact on living standards.
The reluctance to claim, but the necessity of claiming, welfare benefits − perhaps further demoralising the individual.
Lower morale, perhaps resulting from unsuccessful job search impacting on worker performance.
Lower morale, perhaps resulting from unsuccessful job search impacting on worker performance.
The dangers of long-term unemployment.
The need for geographical and/or occupational mobility (with implications for re-training).
Long-term financial implications in terms of savings and pensions.
Any other valid point.

Use of diagrams to help support explanations, e.g. AD/AS, PPF.

Reward references to the UK economy.

Where more than two problems are considered for either the individual or the economy, reward the best two problems.

Award a maximum of 10 marks if only the individual or the economy is considered.

[15]

5.

Relevant issues/logical chains of analysis include:

- definition of the term ‘higher standard of living’, eg the increased well-being of the population, the increased economic welfare of the population. A candidate may define in narrow terms, eg an increase in the per capita rate of consumption of goods and services
- further explanation of the term, eg references to material well-being, to the quality of life, to the HDI, ISEW, Misery Index
- Higher income per head because growth of GDP has outstripped population growth allowing more spending on goods and services, hence greater material well-being and perhaps higher saving for higher future consumption
- Life expectancy, infant mortality rates/mortality rates, access to health care/quality and quantity of health care, access to education and the quality and duration of education provision, environmental factors affecting the quality of life, quantity and quality of public goods, quality of goods and services consumed, distribution of income
- Use of appropriate diagrams, eg AD/AS, MPC/MSC

[9]

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7. **Issues and areas for discussion include**

Introduction	• the concept of a single market • other examples of single markets • the development of the EU single market • possible criteria for assessing benefits in outline.
Developing the response to the question (analysis and application)	*It will be perfectly legitimate for a candidate to cite benefits and, by evaluating these, to identify costs (or vice versa), eg competition as a spur to efficiency, but in evaluation, the UK not able to match the achievements in efficiency seen in some other member states with higher unemployment being a potential cost (consequence) of this.* • economic growth • economies of scale • comparative advantage • specialisation • efficiency, with inefficient firms failing (static v dynamic efficiency) • productivity • competition • choice of goods and living standards • mobility of resources • harmonisation of economic policies possible • trade expansion/trade creation • standardisation of national regulations • greater ease of doing business between members • investment • the single market as a 'driver' to further enlargement of the EU in general (although some would see this as a cost) • costs for the UK associated with being geographically separate from the rest of the EU and peripheral to the core • unemployment • low wages arising from mass immigration • a steady weakening, perhaps ultimately loss, of UK economic links with the rest of the world as trade diversion becomes more prevalent • costs associated with a 'survival of the fittest' scenario • bullying by dominant members into accepting economic policies seeking to strengthen the single market which are not in UK's long-term interests • regulations not necessarily being removed but imposed at EU, rather than national, level • use of diagrams • references to the real world.

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Evaluation	• much of any objective evaluation may rest on to what extent the single market is allowed to develop ultimately • non-EU countries which did have strong economic ties with one or other members of a single market may find them weakening (trade diversion taking place), eg the Commonwealth and UK • progress can be slow, eg the single market in services still needs to be developed, and yet some members are largely dependent on services • a single market may not mean fewer regulations faced by members but just regulations raised to organisation, rather than national, level and this may not be efficient from the national perspective or, ultimately, from the single market perspective • threat of competition for an individual economy from lower-cost members with implications for the balance of payments and jobs, perhaps irrespective of the efficiency gains in the higher-cost country • labour mobility does not always deal with surplus/shortage problems very neatly and individual countries may suffer • migration driven not by economic factors (e.g. prospects of employment) but the supportive mechanisms in place in the recipient countries (eg welfare and health-care),perhaps causing a heavier burden on an economy' s public finances and downward pressure on wages • higher living standards for all cannot be assumed; improvements may well be patchy • any economic benefits such as higher growth can be diluted by developments beyond the single market, notably global recession • the possibility of any one member being continually pressured to accept developments e.g. the single currency and/or a common fiscal policy • the drawing of different conclusions is possible when considering the likelihood of a two-speed EU, ie euro members v non-euro members • a final judgement on the potential benefits of the single market for a country such as the UK. Some central facts: access to 500m people; over half of UK trade is with other members of the single market; estimated that 3.5mn UK jobs are linked to export of goods and services to the remainder of the single market; another estimate suggests that member countries trade twice as much with each other as they would in the absence of the single market. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

9.

- defining living standards, eg the general well-being of a country's population;
- economic welfare
- GDP and per capita income
- aspects of social welfare
- indices such as the HDI
- distribution of income
- any other relevant aspect explained.
- a definition of government spending/fiscal policy/budget surplus/deficit.
- **Explanation:**
  - welfare spending might have a very direct effect on living standards because cuts in benefits will lower disposable income so lowering spending and consumption. Job Seeker's Allowance and Child Benefit come into this category
  - the impact on public sector employment and increases in earnings which do not match inflation
  - weakening any government stimulus to AD and hence to employment generally
  - fiscal contraction and average income
  - less spending on merit goods such as health and education
  - the possibility of a reallocation of spending which helps to improve welfare of more people even though government spending is being cut
  - any other effect explained.
- Use of diagrams to help support explanations, eg AD/AS
- References to the UK and/or other economies

[15]

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10.

Introduction	• The nature of EU single market • Origins of the EU • How 'beneficial' may be measured in terms of macroeconomic performance.
Developing the response to the question: **Application**	**Drawing on the information in the extracts:** • Electoral success **(Extract B)** • Lower taxes creating growth **Extract B** • Balancing budget helped by growth (**Extract B**) • Reduced size of the state (**Extract B**) • What goods and services the state provides (**Extract C**) • Health, education and welfare in terms of living standards (**Extract C**) • Benefiting certain income groups (**Extract C**) • The effect of shifting from direct to indirect taxation (**Extract C**)
Developing the response to the question: **Analysis**	**Arguments why direct tax cuts may be beneficial for growth and living standards:** • Increased consumption possibilities • Increased AD as a result of increased consumption and short-run economic growth • Possible increase in firms profits and its role in stimulating investment • Individuals are able to spend more on what they wish, improving welfare • Reduced tax rates leading to more tax revenue (Laffer curve arguments) • Links between economic growth and living standards • Reducing crowding out • Possible multiplier effects. **Arguments why direct tax cuts may be damaging for growth and living standards:** • Possibly leading to reduced state intervention • Reduction in provision of both public and merit goods • Possible increased inequality • Rich having a larger marginal propensity to save, therefore not spending as much, reducing the circular flow • Possible negative multiplier effects • Lack of crowding in • Costs of economic growth in terms of living standards (eg pollution).

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Evaluation	• Short-run vs long run considerations • Are growth and living standards always necessarily directly linked? • How can living standards be judged and what factors need to be considered in their measurement? (This could include HDI or other suitable measurements). • The role of the state and the effects of merit and public goods on living standards • Differences between New Zealand's and UK's experiences, eg New Zealand linked to fast growing Asia-Pacific region. • The idea that living standards and growth encompass a wide range of factors beyond that which domestic governments have control. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Relevant diagrams • An overall judgement on the issues raised.

It will only be possible for candidates to consider a few of the above. They may also discuss other issues not discussed above

[25]

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11.

Introduction	• Economic growth • Living standards/the quality of life • Measurements of living standards.
Developing the response to the question: **Application / Analysis**	• Measuring economic growth • Correlations between growing real GDP per capita and living standards • The change in real GDP per capita as a monetary indicator and the suitability of this for use in judging living standards • Long-run and short−run growth considerations • Inaccuracy and variability in growth rates • HDI/Legatum prosperity index/Misery index/Happy planet index or any other measurement of living standards • Regional differences within countries • Possibilities of increased consumption possibilities • Provision of merit goods/public goods • Pollution and the environment • Inequality issues within countries.
Evaluation	• The sustainability of the growth and consideration of how fast economies are growing • Discussion of the prioritisation of the various factors which make up living standards • Consideration of trade−offs involved in growth • The ability of individuals to move between countries in pursuit of better living standards • Consideration of different economies experiences • Differences between different economic perspectives on welfare provision between different countries and over time • Considering that the judgement of standards of living is highly subjective and different individuals have different opinions on living standards • Exogenous factors beyond the control of the country may impact on living standards for example global warming. *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*
Also give credit for	• Reference to the UK/other economies • Diagrams • An overall judgement on the issues raised.

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It will only be possible for candidates to consider a few of the above. They may also discuss other issues not mentioned above.

[25]

12. B

[1]

13.

Response	Max 4 marks
• includes evidence that shows that living standards in India have improved. • clearly explains how this data is evidence that India is moving to a higher level of human development.	**4 marks**
• includes evidence that shows that living standards in India have improved. • unclear explanation of how this data is evidence that that India is moving to a higher level of human development.	**3 marks**
• includes some limited evidence that shows that living standards in India have improved. • limited explanation of how this data is evidence that India is moving to a higher level of human development.	**2 marks**
• includes evidence that does not clearly show that living standards in India have improved. • no explanation of how this data is evidence that India is moving to a higher level of human development.	**1 mark**

Relevant issues include:

- meaning of 'living standards'
- life expectancy has risen from 53.9 years in 1980 to 68.0 years in 2014
- expected years of schooling has increased from 6.4 years in 1980 to 11.7 years in 2014
- the Gross National Income per capita has risen from $1255 in 1980 to $5497 in 2014
- the HDI score has risen from 0.362 in 1980 to 0.609 in 2014

[4]

14. D

[1]

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