AQA A-LEVEL ECONOMICS

ECONOMICS



EXAM QUESTION PACK

UNIT 4 OLD SPECIFICATION PAPERS

STEMUP

These questions belong to AQA, not to us.

The examination questions, mark schemes and examiner reports in this pack were written and published by AQA. They are past assessment materials, reproduced here so that students can revise from them.

What we do not own

STEMUP is not affiliated with AQA and does not own, and makes no claim to own, any of the question, mark scheme or examiner report material in this pack. AQA has not endorsed, approved or been involved in the production of it. AQA and the qualification titles used here belong to their respective owners and appear for identification only.

Where to find the originals

AQA publishes its past papers, mark schemes and examiner reports free of charge. Always check the current specification at aqa.org.uk before you revise, because content and wording can change between series.

If you hold the rights to any material in this pack and would like it amended or removed, contact admin@stemup.co.uk and we will act on it.

General Certificate of Education
Advanced Level Examination
June 2013

Economics ECON4

Unit 4 The National and International Economy

Tuesday 11 June 2013 9.00 am to 11.00 am

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

STEMUP.CO.UK

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER **Total for this Context: 40 marks**

Context 1

THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Context 1 which follow.

Extract A: Real GDP growth, unemployment rate, and inflation, selected Middle Eastern economies, 2010

Economy	Real GDP growth (%)	Unemployment rate (% of labour force)	Inflation (%)
Egypt	5.1	9.0	11.7
Iran	3.2	13.2	12.4
Iraq	0.8	15.3	2.4
Jordan	2.3	12.5	5.0
Qatar	16.6	0.5	– 2.4
Saudi Arabia	4.1	10.8	4.1

Source: official statistics, 2011

Extract B: A decade of change, challenge and opportunity

This year, ten years will have passed since the downfall of Saddam Hussein in Iraq. Over these years the Middle East and North African countries (MENA) have continued to witness economic and political instability, culminating in the recent so-called 'Arab Spring' uprisings in countries such as Egypt, Libya and Syria.

The *Organisation for Economic Cooperation and Development (OECD)* distinguishes two groups within the MENA region. The resource-rich economies, such as Iraq, Saudi Arabia and Dubai, are recognised as being different from those seen as resource-deficient, such as Egypt and Jordan. For both groups, however, and despite the political problems for some, the OECD is optimistic about future growth.

The OECD argues that, as the global economy recovers, demand for goods and services from European and emerging markets in particular will encourage development of MENA's manufacturing and service sectors. Just as the UK, for example, enjoys a comparative advantage in financial services, some MENA economies are now developing attractively priced manufactured goods. Tourism is also ripe for further development.

STEMUP.CO.UK

However, although the OECD points to economic progress having been made, recent years have highlighted challenges which need to be faced in the MENA economies if there is to be further progress. Improvements in labour productivity and hence competitiveness are essential for increased trade with the rest of the world. More foreign investment in infrastructure and manufacturing plant is desperately needed, with advanced countries such as the UK having a role to play here. Unemployment remains persistently high in some MENA countries, as does inflation.

Jordan is beginning to show what can be done to bring about a more successful economy. Through productivity improvements, it is now one of the most competitive MENA countries. This has helped it to negotiate a number of significant free trade agreements, including those with the EU and the US. Exports have brought increased economic growth to Jordan, as has domestic investment.

One of the benefits of economic success can be a higher standard of living. The Human Development Index (HDI) allows international comparisons of living standards. The Arab states of the Middle East have seen an improvement in the index from 0.444 in 1980 to 0.641 in 2011. The latter figure can be compared with 0.862 for the UK.

Income per head, access to healthcare and education, life expectancy, the quality of the environment and a fair distribution of income are key factors in any assessment of living standards. The UK and other developed countries need to remember that higher living standards can mean bigger markets for goods and services.

In many of the MENA economies, there is still much to be done to achieve sustained economic success. But, where Jordan leads, others will begin to follow. To do so would see a significant strengthening of MENA's economic importance in the global economy.

Source: news reports, 2012

0 1 Using the data on unemployment in **Extract A**, calculate the number of people unemployed in Egypt in 2010, given a labour force of 27 million, **and** identify **one** other significant feature of the data for 2010. *(5 marks)*

0 2 **Extract B** (line 27) states: 'One of the benefits of economic success can be a higher standard of living.'

Explain the term 'a higher standard of living' **and** analyse **two** factors which can be considered in any assessment of a country's standard of living. *(10 marks)*

0 3 **Extract B** (lines 36 – 37) states that, if other MENA economies were to follow Jordan's lead, there would be a 'significant strengthening of MENA's economic importance in the global economy'.

To what extent, if at all, should developed countries such as the UK be concerned about a significant strengthening of the economic importance of MENA countries in the global economy? Justify your answer, using the data and your economic knowledge.
(25 marks)

Turn over ▶

STEMUP.CO.UK

Do **not** answer Context 2 if you have answered Context 1.

OR **Total for this Context: 40 marks**

Context 2

THE EUROPEAN UNION CONTEXT

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

Extract C: Real GDP (annual % change), the European Union and selected EU economies, 2010–2013

	Actual	Actual	Forecast	Forecast
	2010	**2011**	**2012**	**2013**
France	1.4	1.6	0.2	1.0
Germany	3.6	3.0	0.3	1.5
Italy	1.5	0.4	– 2.2	– 0.6
Spain	– 0.1	0.7	– 1.7	– 0.3
UK	2.1	0.9	0.6	2.0
Euro area	1.9	1.6	– 0.5	0.8
European Union	**2.0**	**1.6**	**– 0.1**	**1.2**

Source: adapted from OECD (2012), "Gross domestic product in US dollars", Economics: Key Tables from OECD, No 5. http://dx.doi.org/10.1787/gdp-cusd-table-2012-1-en

Extract D: Economic growth or a double-dip recession?

In the third quarter of 2011, UK real GDP rose by 0.6%. Within this, manufacturing output increased by just 0.1%, while services such as banking and finance showed a 0.7% increase. Unemployment was around 8% of the labour force.

Such weak growth figures are a reflection of the economic situation within the European Union (EU) as a whole. The likelihood is that the next few years for the UK economy will be bleak. This pessimism is shared by other EU countries.

Prospects do not look good for the EU economy as a whole but, of course, the detailed picture varies between member countries. There has been a general deterioration in confidence. Intense financial turmoil in money and capital markets is affecting both investment and consumption. Deficit-reduction programmes are also suppressing domestic demand. Weaknesses in the global economy are holding back UK and EU exports. In mid-2011, the hope had been expressed by some economists that exports would be a major driver of economic growth, but such optimism proved groundless.

STEMUP.CO.UK

Attention has again turned to domestic demand within the EU. The projected decrease in inflation in the UK and in other member countries, coupled with limited wage growth, should at least limit any further significant erosion of real disposable income. However, there is continuing concern over the level of household debt which may yet constrain demand. Overall, the fears of a double-dip recession still loom large.

Within the UK, there is a debate over the relative importance of the various potential sources of growth in the next few years. There is a view that tightening of fiscal policy in the UK, together with similar policies in other EU countries, is damaging consumer demand and business confidence unnecessarily. The UK think-tank, the Institute for Public Policy Research (IPPR), argues for changes to be made to UK fiscal policy, and supports more severe spending cuts only when the economy improves.

The Institute therefore points to three possible solutions to the problem of slow UK and EU growth. These are: increases in government spending; substantial increases in global demand; and households and firms being given stronger incentives to spend more, for example through tax cuts. While growth in demand is seen as an important determinant of economic growth over the next few years, elements of government spending and incentives to business can make important contributions to the strengthening of the supply side of the economy.

None of the solutions offered by the IPPR seems likely to occur at the moment. The UK Government appears to be determined to maintain its tight fiscal policy, arguing that it is the only basis for sustained long-term growth. The global economy is far from stable, with increased talk by some of greater protectionism, although the emerging markets, such as India and Brazil, offer some hope for UK and EU exports. Households lack the confidence, and often the ability, to increase spending, while companies lack the optimism to invest. It needs to be borne in mind that the EU remains the UK's most important single trading partner by far. The best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU.

Sources: news reports, 2012

0 4 Using the data in **Extract C**, calculate for Germany in 2011 the change in real GDP in €bn, given real GDP in 2010 of €2500 bn, **and** identify **one** other significant feature of the data for the period 2010 to 2013. *(5 marks)*

0 5 **Extract D** (line 18) states: 'Overall, the fears of a double-dip recession still loom large.'

Explain the phrase 'double-dip recession' **and** analyse **two** possible reasons for unemployment rising in a recession. *(10 marks)*

0 6 **Extract D** (lines 39 – 41) argues that the 'best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU'.

To what extent would you agree that the EU is likely to offer the 'best hope for stronger UK economic growth' over the next few years? Justify your answer, using the data and your economic knowledge. *(25 marks)*

Turn over for the next question

STEMUP.CO.UK

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

In November 2011, the UK inflation rate was 4.8%, the rate of unemployment was 8.3%, while Bank Rate remained at 0.5%.

0 7 Explain **two** economic consequences for an individual **and two** economic consequences for an economy of an increase in its price level. *(15 marks)*

0 8 To what extent are low interest rates appropriate in the UK at a time of high inflation? *(25 marks)*

OR

Essay 2

Weaknesses in the UK balance of trade in goods persist, with a deficit of £27.6 bn in the third quarter of 2011, compared, for example, to £23.3 bn in the same quarter in 2010.

0 9 Explain **three** reasons for a country such as the UK experiencing persistent deficits in the balance of trade in goods. *(15 marks)*

1 0 Discuss the possible contribution of supply-side reforms to achieving an improvement in the UK balance of trade in goods. *(25 marks)*

OR

Essay 3

The formation of single markets by countries in various parts of the world, including within Europe, has shown that much is to be gained from increased economic cooperation.

1 1 Explain the main features of a single market, such as that which exists within the European Union (EU). *(15 marks)*

1 2 Evaluate the possible economic costs and benefits to an EU member state, such as the UK, of being part of the EU single market. *(25 marks)*

END OF QUESTIONS

STEMUP.CO.UK

There are no questions printed on this page

There are no questions printed on this page

Copyright © 2013 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

V1.0



General Certificate of Education (A-level)
June 2013

Economics ECON4

(Specification 2140)

Unit 4: The National and International Economy

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available from: aqa.org.uk

Copyright © 2013 AQA and its licensors. All rights reserved.

Copyright
AQA retains the copyright on all its publications. However, registered schools/colleges for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to schools/colleges to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX.

June 2013 **ECON4**

Advanced Level Economics Unit 4

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

(i) **An issue-based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

(ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

STEMUP.CO.UK

AQA ADVANCED LEVEL (A2) ECONOMICS

LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY

A2 **LEVELS OF RESPONSE**	**AO1** **KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology**	**AO2** **APPLICATION of theories, concepts and terminology**	**AO3** **ANALYSIS of economic problems and issues**	**AO4** **EVALUATION of economic arguments and evidence, making informed judgements**
Level 5 22-25 marks (mid-point 24) **Good analysis and good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

An Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

STEMUP.CO.UK

1 THE GLOBAL CONTEXT — Total for this Context: 40 marks

01	Using the data on unemployment in **Extract A**, calculate the number of people unemployed in Egypt in 2010, given a labour force of 27million, **and** identify **one** other significant feature of the data for 2010. *(5 marks)*

The calculation:

Value: Given the labour force in Egypt of 27m and the data indicating that 9% of the labour force is unemployed, the number of people unemployed is 2.43m (accept 2.4m)

For the correct answer of 2.43m (working need not be shown). 2.4m is acceptable. The unit (millions) must be shown.	**3 marks**
For an answer without the unit shown	**2 marks**
For showing the correct method but arriving at the wrong answer.	**1 mark**

Identifying one significant feature:

For identifying a significant feature and providing supporting data with the unit shown.	**3 marks (1 + 2)**
For identifying a significant feature but using data without the unit shown.	**2 mark**
For identifying a main feature without supporting data.	**1 mark**
For simply providing one item of data with or without the unit shown or providing a 'trawl' and including a number of statistics, none of which can be regarded as particularly significant.	**0 marks**

Significant features include:

- of the countries shown, only Qatar has double-digit real GDP growth (16.6%)
- the range of real GDP growth rates is quite wide within the 6 countries shown (16.6% - 0.8% = 15.8% points)
- all countries shown have positive growth, eg Egypt 5.1%, Jordan 2.3%
- unemployment levels are high with the exception of Qatar (Qatar: 0.5%, Saudi Arabia: 10.8%)
- there is a wide range of values for annual inflation of 14.8% (Iran's 12.4%, Qatar's -2.4%)
- Qatar is the only economy shown to experience deflation in 2010 (– 2.4% change in inflation rate)
- average real GDP growth is 5.35% (5.4% to one decimal place)
- average change in inflation prices is 5.53% (5.5% to one decimal place)
- highest and lowest values per indicator (reference to one of the indicators is sufficient): real GDP growth 16.6% to 0.8%; unemployment 15.3% to 0.5%; inflation 12.4% to -2.4%.

MAXIMUM FOR PART 01: 5 MARKS

STEMUP.CO.UK

02 **Extract B** (line 27) states: 'One of the benefits of economic success can be a higher standard of living.'

Explain the term 'a higher standard of living' **and** analyse **two** factors which can be considered in any assessment of a country's standard of living. *(10 marks)*

Explanation:	
For a 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.	**Up to 2 marks for a definition (ensuring that the definition is not also credited as part of the analysis)**
For further explanation of the term, eg references to material well-being, to the quality of life, to the HDI, ISEW, Misery Index.	**Up to 2 marks per explanation (do not also credit in the analysis but ensure additional marks are awarded for deeper analysis in that section)**

Maximum 4 marks for the explanation

Analysis of two factors. Award one mark for each step in a logical chain of reasoning. For example:	
Higher income per head **(1 mark)** because growth of GDP has outstripped population growth **(1 mark)** allowing more spending on goods and services **(1 mark)**, hence greater material well-being **(1 mark)** and perhaps higher saving for higher future consumption **(1 mark)**.	**Up to 5 marks**
Life expectancy	**Up to 5 marks**
Infant mortality rates/mortality rates	**Up to 5 marks**
Access to health care/quality and quantity of health care.	**Up to 5 marks**
Access to education and the quality and duration of education provision.	**Up to 5 marks**
Environmental factors affecting the quality of life	**Up to 5 marks**
Quantity and quality of public goods	**Up to 5 marks**
Quality of goods and services consumed	**Up to 5 marks**
Distribution of income	**Up to 5 marks**
Any other valid factor	**Up to 5 marks per factor**
References to the UK and/or other economies	**1 mark per reference up to a maximum of 2 marks**

Use of appropriate diagrams, eg AD/AS, MPC/MSC.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

STEMUP.CO.UK

A candidate can be awarded a **maximum of 6 marks** for the analysis if the explanation has not been attempted.

Award a maximum of **8 marks** if candidate analyses only one factor.

Where a candidate analyses more than two factors, award marks to the best two factors.

MAXIMUM FOR PART 02: 10 MARKS

STEMUP.CO.UK

03 **Extract B** (lines 36 – 37) states that, if other MENA economies were to follow Jordan's lead, there would be a 'significant strengthening of MENA's economic importance in the global economy'.

To what extent, if at all, should developed countries such as the UK be concerned about a significant strengthening of the economic importance of MENA countries in the global economy? Justify your answer, using the data and your economic knowledge *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded more than **15 marks**.

Where there is no explicit reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• criteria for assessing 'significant strengthening of the economic importance' • identification of one or more MENA economies • the range of economic experience in the MENA economies.
Developing the response to the question (Application)	• comparative advantage • labour productivity • production possibilities • supply of resources from the resource-rich MENA economies (line 6) • opportunities for UK financial services (lines 12 – 13) • the threat from MENA manufacturing (lines 13 – 14) • further investment opportunities for UK in the MENA economies (lines 18-20) • the potential significance of free trade agreements between MENA and other economies (lines 24 – 26) • potential benefits to the UK of higher living standards in MENA countries (lines 27 – 30).
Analysis	• economic growth • employment and unemployment • balance of payments on current account • supply-side reforms • AD/AS analysis • comparative advantage • further structural change in the UK economy • living standards • direction of investment • use of diagrams • references to the UK and/or other economies.

STEMUP.CO.UK

Evaluation	• 'concern' needs to be measured against opportunities in the MENA economies • continuing political instability in the MENA region may dilute any threats to the UK and any opportunities for the UK in the MENA economies • the inflexibility of the UK economy may mean lost opportunities • if and when importance strengthens, the MENA economies' more powerful negotiating position regarding prices of resources needed by developed countries • MENA economies in relation to other opportunities elsewhere in the global economy • opportunities/threats in the UK domestic economy compared to those presented by the MENA economies • how the UK might compare to other economies with similar aims of gaining a foothold in the MENA economies, eg, the emerging markets • the significance of relative inflation rates between MENA economies and the UK, and between the UK compared to other economies showing interest in the MENA economies • the possible greater impact on the UK and a cause for concern if the UK's major markets, the EU and US, continue to have problems • the threat the MENA economies pose to the UK in established UK markets especially in the long term • a final judgement on the economic consequences. *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.*

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

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5
FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 03: 25 MARKS

STEMUP.CO.UK

2 THE EUROPEAN UNION CONTEXT — Total for this Context: 40 marks

04 Using the data in **Extract C**, calculate for Germany in 2011 the change in real GDP in €bn, given real GDP in 2010 of €2500bn **and** identify **one** other significant feature of the data for the period 2010 to 2013. *(5 marks)*

The calculation:

Value: With real GDP being €2500bn in 2010, the real GDP growth rate of 3% shown for Germany in 2011 would indicate an additional €75bn of output in real terms in that year. It is acceptable for candidates to give this figure or (€2500bn + €75bn) €2575bn.

For the correct answer of €75bn or €2575bn (the 2010 real GDP figure added to the €75bn which represents the 3% growth in the data). Working need not be shown but the unit must (€bn).	**3 marks**
For an answer without the unit shown	**2 marks**
For showing the correct method but arriving at the wrong answer.	**1 mark**

Identifying one significant feature:

For identifying a significant feature and providing supporting data with the unit shown (%).	**3 marks (1 + 2)**
For identifying a significant feature but using data without the unit shown.	**2 mark**
For identifying a main feature without supporting data.	**1 mark**
For simply providing one item of data with or without the unit shown or providing a 'trawl' and including a number of statistics, none of which can be regarded as particularly significant.	**0 marks**

Significant features include:

- only one of the economies shown has negative real GDP growth in 2010-2011 (Spain: -0.1%)
- in 2011, all economies experience positive real GDP growth, eg the euro area: 1.6%
- the range of real GDP % values 2010-13 is 5.8% points. Italy has the greatest negative value, forecast to be – 2.2% in 2012 with Germany having the highest positive figure of the period at 3.6% in 2010. (It is acceptable just to give the range)
- the UK is forecast to have the highest growth of real GDP in 2012 and 2013, at 0.6% and 2.0% respectively, compared to a weaker position in 2010 – 2011
- Germany has the best actual real GDP growth figures in 2010 and 2011 at 3.6% and 3.0% respectively but does not maintain this position in the forecast figures
- in none of the years does the EU as a whole show the best values when compared to the individual economies shown, eg in 2010 and 2011, EU real GDP growth is 2.0% and 1.6% respectively
- the highest real GDP growth figure for the period is in 2010 (Germany: 3.6%) and the lowest in 2012 (Italy: -2.2%). (This point may be made without reference to the range as above).

MAXIMUM FOR PART 04: 5 MARKS

STEMUP.CO.UK

05 **Extract D** (line 18) states: 'Overall, the fears of a double-dip recession still loom large'.

Explain the phrase 'double-dip recession' **and** analyse **two** possible reasons for unemployment rising in a recession. *(10 marks)*

Explanation	
For a definition of the phrase 'double-dip recession', eg an economy which has been in recession, experiences a tentative recovery, but then slips back into recession; a definition of recession, eg in terms of 2 consecutive quarters of negative GDP growth.	**Up to 2 marks per definition (ensuring that the definition is not also credited as part of the analysis). A good candidate is likely to begin by defining recession (2 marks) and then define the actual phrase used in the question (2 marks)**
For further explanation of the term with particular reference to the term recession and its characteristic, perhaps putting it into the context of the trade cycle, or the output gap.	**Up to 2 marks per explanation (do not also credit in the analysis but ensure additional marks are awarded for deeper analysis in that section)**

Maximum 4 marks for the explanation

Analysis of why unemployment rises. Award one mark for each step in a logical chain of reasoning. For example:	
As the economy slips into recession, unemployment will begin to rise **(1 mark)** as consumers begin to spend less **(1 mark)** and businesses dismiss workers in order to cut costs **(1 mark)** and ensure their survival until the upturn **(1 mark)**. This unemployment will be the cyclical portion of total unemployment **(1 mark).**	**Up to 5 marks**
UK recession as part of a global recession or a recession amongst our major trading partners.	**Up to 5 marks**
Less investment and so potentially less job creation.	**Up to 5 marks**
Higher savings amongst consumers as confidence wanes, and therefore less spending.	**Up to 5 marks**
Industries or regions already weak now facing further, perhaps more severe, decline.	**Up to 5 marks**
Housing as a major, labour-intensive sector, comes under pressure and initiates a negative multiplier process.	**Up to 5 marks**
Deflation and the potential for deferred spending	**Up to 5 marks**

STEMUP.CO.UK

Governments refuse to take adequate counter-cyclical (Keynesian) measures perhaps already constrained by fiscal problems.	**Up to 5 marks**
Wage inflexibility	**Up to 5 marks**
Any other valid point analysed	**Up to 5 marks per point analysed**
References to the UK and/or other economies.	**1 mark per reference up to a maximum of 2 marks**

Use of appropriate diagrams, eg AD/AS, PPF, output gaps.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

A candidate can be awarded a maximum of **6 marks** for the analysis if the explanation has not been attempted.

Award a maximum of **8 marks** if a candidate analyses only one reason.

Where a candidate analyses more than two features, award marks to the best two features**.**

MAXIMUM FOR PART 05: 10 MARKS

STEMUP.CO.UK

06 **Extract D** (lines 39 – 41) argues that the 'best hope for stronger UK economic growth must therefore surely rest with the EU, but this requires the eurozone to be stabilised and macroeconomic conditions to improve throughout the EU'.

To what extent would you agree that the EU is likely to offer 'the best hope for stronger UK economic growth' over the next few years? Justify your answer, using the data and your economic knowledge. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks.**

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis <u>but</u> very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• economic growth • general causes of economic growth • the EU • 'the best hope' in relation to what?
Developing the response to the question (Application)	• economic growth theory • trade cycle and recession • fiscal policy and deficit-reduction policy • application to recent/current events so heavily represented in the media • the EU tumbling back into recession (lines 4 – 6) • variation in prospects between EU member countries (lines 7 – 8) • strict fiscal policies in UK and in much of the rest of the EU (lines 20 – 22) • recovery in the global economy (lines 35 – 36) • hopes for stabilisation in the eurozone (lines 40 – 41).
Analysis	• how the EU can help UK GDP growth, eg demand for exports, euro and other currencies strengthening against the pound • stimulus from those EU economies recovering more quickly than others • the EU and the single market • stimulus from other parts of the world, eg the emerging markets • UK supply-side reforms giving a competitive edge in albeit depressed markets • the contribution of domestic demand within the UK, eg if fiscal constraints are relaxed on spending, tax cuts are introduced, consumers begin to show a stronger response to low interest rates

STEMUP.CO.UK

	• the impact of any increase in domestic wage increases should they occur after a period of restraint • UK private sector beginning to more than compensate for the contraction of the public sector • investment trends in the UK • trends in the exchange rate of the £ against other currencies impacting on UK global exports • use of diagrams • references to the UK and/or other economies.
Evaluation	• whatever growth is seen within the EU, other parts of the world may grow more strongly and offer more opportunities to the UK • the speed of recovery particularly in the eurozone • the persistence/exacerbation of economic problems for the UK should the eurozone begin to break up • whether or not the UK is competitive enough against the emerging markets • greater reliance for growth from within the UK if recovery becomes more rapid, perhaps on the back of a looser fiscal policy, increased consumer and business confidence, a stronger government growth strategy • the dangers of discussing just in terms of eurozone/non-eurozone countries; analysis must be of individual EU economies to assess their potential contribution to UK growth in the future and their past importance to the UK economy • in more stable times, the size of population in the EU, total spending power, and the benefits to the UK of the single market • whatever the UK prospects for growth emanating from the EU, the long term sense of limiting UK reliance on one area of the world and developing stronger links elsewhere • a final judgement on the prospects for the UK *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.*

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

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 06: 25 MARKS

STEMUP.CO.UK

SECTION B

Essay 1 **Total for this Essay: 40 marks**

In November 2011, the UK inflation rate was 4.8%, the rate of unemployment was 8.3%, while Bank Rate remained at 0.5%.

07 Explain **two** economic consequences for an individual **and two** economic consequences for an economy of an increase in its price level. *(15 marks)*

For defining the price level and/or inflation with reference to cost-push and demand-pull or the phrase 'increase in the price level' and/or 'economic consequences'.	**Up to 2 marks per definition to a maximum of 4 marks**

For explaining two economic consequences for an individual; award one mark for each step in a logical chain of reasoning. For example:	
• a rise in the price level will erode real personal disposable income **(1 mark)** when there has been no increase in money wages to compensate **(1 mark).** This means that consumption may have to be curtailed **(1 mark)** and/or the proportion of income saved reduced **(1 mark).** The material well-being of the individual is therefore affected **(1 mark)** as might the quality of life **(1 mark)** if the individual feels the necessity of working longer hours to compensate **(1 mark)**. • greater danger of unemployment if competitiveness suffers or anti-inflation measures take effect • 'shoe-leather' costs • 'menu' costs • the real value of debts • the dangers of being a creditor • uncertainty affecting decisions, notably consumption decisions • the impact on those on fixed incomes • the impact on behaviour of rising expectations about inflation • reduced real value of savings • any other valid point.	**Up to 6 marks per explanation**

STEMUP.CO.UK

<table>
<tr><th colspan="2">For explaining two consequences for an economy; award one mark for each step in a logical chain of reasoning.</th></tr>
<tr><td>• the impact on competitiveness (1 mark) if the economy's prices rise faster than those in its trading partners (1 mark). It therefore becomes more difficult to sell goods and services overseas (1 mark) unless exporters' prices are limited by accepting narrower profit margins (1 mark). It also means that imports can become more price attractive (1 mark) and so imported goods begin to displace those produced domestically (1 mark). The current account can therefore be adversely affected (1 mark).
• the impact of policies introduced to combat inflation
• 'menu costs'
• distributional effects
• the impact on business confidence and hence investment
• a cause of unemployment
• inflation can make supply-side reforms more imperative, eg leading to higher productivity, lower unit costs and thus a compensatory factor when considering the impact of price increases
• rising inflation expectations across the economy as a cause of further inflation
• impact on the exchange rate
• short run, long run considerations.</td><td>Up to 6 marks per explanation</td></tr>
<tr><td>Use of diagrams to help support explanations, eg Phillips curve, AD/AS, MEC (examiner note: MEC is not in spec).</td><td>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation</td></tr>
<tr><td>References to the UK and/or other economies.</td><td>1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above.</td></tr>
</table>

Examiner note: *there may be need for flexibility where a candidate argues a case for a factor that we would normally associate with, say, the individual, being relevant to the economy, eg shoe-leather costs and inefficiency in the economy.*

Award a maximum of **10 marks** if both parts of the question are not addressed, i.e. the individual and the economy.

MAXIMUM FOR PART 07: 15 MARKS

STEMUP.CO.UK

08	To what extent are low interest rates appropriate in the UK at a time of high inflation? *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks.**

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding is shown**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• interest rates • role of MPC • inflation and government target • understanding of 'high inflation' • cost-push/demand-pull inflation.
Developing the response to the question (analysis and application)	• aggregate demand • aggregate supply • cost-push inflation • Phillips Curve theory • macroeconomic indicators • liquidity trap (examiners note: this is not in the specification) • interest rates and the transmission mechanism • the impact of low interest rates, eg on consumer credit, investment • interest rates as a cost of production • the importance of identifying the prime cause of inflation • other macroeconomic problems at the time of high inflation • the function of interest rates in controlling inflation • analysis of the possible irrelevance of interest rates to inflation given the known cause of inflation • the impact of high interest rates on other aspects of the macroeconomy if they were to be used to control inflation, e.g. unemployment • other anti-inflation policies when interest rates are being kept low • use of diagrams • references to the real world perhaps including the stats included in the preamble to the question, as well as others known by the candidate.

STEMUP.CO.UK

Evaluation	• the importance of having low interest rates because of the condition of the macroeconomy, eg the perceived need to prevent recession and future deflation • interest rate policy as a possible irrelevance given the type of inflation which is prevalent • high inflation seen as a manageable problem irrespective of what happens to interest rates • how permanent/temporary the high inflation is seen to be • the duration of the era of low interest rates • the possible importance of having a favourable exchange rate in world markets which can be achieved through low interest rates • an assessment of the potential contribution of other policies to the battle against inflation, eg supply side, fiscal, so that high interest rates are not so vital even if the inflation arises from high demand • the extent of inflation in an international context: 'high' may be in an historical context domestically, possibly in relation to a government inflation target, rather than in the current international context • a final judgement perhaps in the context of recent UK experience. *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.*

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

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 08: 25 MARKS

STEMUP.CO.UK

Essay 2 **Total for this Essay: 40 marks**

Weaknesses in the UK balance of trade in goods persist, with a deficit of £27.6bn in the third quarter of 2011, compared, for example, to £23.3bn in the same quarter in 2010.

09 Explain **three** reasons for a country such as the UK experiencing persistent deficits in the balance of trade in goods. *(15 marks)*

For defining/explaining the balance of trade, visibles/ invisibles, the balance of payments on current account, (persistent) deficit/surplus.	**Up to 2 marks per definition/explanation to a maximum of 4 marks**
For explaining three reasons for deficits; award one mark for each step in a logical chain of reasoning. For example:	
• high exchange rate **(1 mark)** which has perhaps appreciated steadily over time **(1 mark)**. It has made the price of exported goods more expensive **(1 mark)** and the price of imported goods cheaper **(1 mark)**. If the price elasticity of demand for exports and imports is elastic **(1 mark)** less export revenue can be expected **(1 mark)**. Expenditure on imports will show an increase **(1 mark)** and hence a balance of trade deficit emerges, all other things being equal **(1 mark)**. • persistent inflation which compares unfavourably to that of trading partners • high income elasticity of demand for imports • supply-side weaknesses such as low productivity • limited structural changes in the economy so that it no longer produces what world markets want • deindustrialisation making increased imports of imported goods inevitable • quality of goods compared to other countries • economic downturns amongst our trading partners not experienced within the UK so that export sales become more difficult while imports of goods stay buoyant or even increase especially if overseas suppliers are desperate to sell and reduce their overseas prices • comparative advantage • protectionism in trading partners not replicated in the UK • any other valid point.	**Up to 7 marks per explanation**
Use of diagrams to help support explanations, eg AD/AS, comparative advantage, tariffs/quotas.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation**
References to the UK and/or other economies	**1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above.**

Award a **maximum of 10 marks** if three reasons are not considered, or the three reasons are not explicit.
If more than three reasons are explained, reward the best three.

MAXIMUM FOR PART 09: 15 MARKS

STEMUP.CO.UK

10 Discuss the possible contribution of supply-side reforms to achieving an improvement in the UK balance of trade in goods. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding is shown**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• definition of supply-side reforms • the balance of trade in goods • improvement: reduced deficits or from deficit to surplus.
Developing the response to the question (analysis and application)	• aggregate supply • aggregate demand • productive capacity • cost-push/demand-pull inflation • productivity • the concept of competitiveness • supply-side reforms in outline • objectives of reforms, e.g. flexibility, mobility, quality, lower unit costs, choice, structural change • individual reforms relevant to the trade in goods • the significance of overseas demand for UK exports and UK demand for imported goods • other policies not linked to the supply side • use of diagrams • references to the real world.
Evaluation	• the nature, extent and effectiveness of UK reforms in relation to those of other countries • whether or not supply-side reforms can in any way compensate for decades of deindustrialisation so that imported goods are an inevitability • the long-term nature of reforms so that deficits may persist in the short and medium terms • the significance of changing tastes in world markets • supply-side reforms at a time of a sustained global downturn • supply-side reforms concentrating on lowering unit costs rather than quality and choice, so imports remain attractive, exports no more attractive

STEMUP.CO.UK

	• whether supply-side reforms will always be a story of 'too little, too late' • relative merits of supply-side policies to other policies that can be used to reduce deficits eg significance of exchange rates • a final judgement, perhaps in the context of recent UK experience. *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.*

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

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5
FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 10: 25 MARKS

STEMUP.CO.UK

Essay 3 **Total for this Essay: 40 marks**

The formation of single markets by countries in various parts of the world, including within Europe, has shown that much is to be gained from increased economic cooperation.

11 Explain the main features of a single market, such as that which exists within the European Union (EU). *(15 marks)*

For defining a single market (eg a type of trade bloc which is initially a free trade area for goods for the benefit of member countries).	
Giving examples of single markets other than the EU, eg. Agreement on Internal Trade (AIT) in Canada; European Free Trade Association (EFTA). Identifying an important distinction between a single market and a customs union: in the latter a common trade policy such as the EU common external tariff.	**Up to 2 marks per definition/explanation to a maximum of 4 marks**

For explaining the main features of single markets; award one mark for each step in a logical chain of reasoning. For example:	
• a type of trade bloc initially concerned with free trade in goods (examiners take care not to duplicate marks if this was given as a definition above) • free trade in services • working to remove barriers to further economic integration, eg any remaining physical barriers (borders), fiscal (taxes), with the long-term aim of strengthening general economic relations between members • liberalisation of financial markets to encourage better flow of investment funds • common policy on government procurement (any member government obliged to consider submission of bids for government contracts from any member country) • common technical, safety and health standards for goods which may arise from cooperation on R&D • links may be established with neighbouring countries, eg EFTA + EU = EEA • often having a strong commitment to supporting the international (multilateral) trading system as spearheaded by the WTO.	**Award one mark for each step in a logical chain of reasoning on any feature identified by the candidate up to a maximum of 15 marks for this part of the essay.**

STEMUP.CO.UK

Use of diagrams to help support explanations, eg comparative advantage, but diagrams are unlikely in this part of the answer.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation**
References to the UK or other economies in a relevant way but being sure not to duplicate marks for examples of single markets given in the introduction.	**1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above for the explanation.**

MAXIMUM FOR PART 11: 15 MARKS

STEMUP.CO.UK

12	Evaluate the possible economic costs and benefits to an EU member state, such as the UK, of being part of the EU single market.	*(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding is shown**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

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)

STEMUP.CO.UK

	• 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.
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.*

STEMUP.CO.UK

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

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5 FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 12: 25 MARKS

STEMUP.CO.UK

General Certificate of Education
Advanced Level Examination
January 2013

Economics ECON4

Unit 4 The National and International Economy

Wednesday 30 January 2013 1.30 pm to 3.30 pm

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

STEMUP.CO.UK

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER **Total for this Context: 40 marks**

Context 1

THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Context 1 which follow.

Extract A: Annual real GDP growth rates and unemployment rates (%), world and selected regions, 2007 to 2010

Annual real GDP growth rates (%)	2007	2008	2009	2010 (*forecast*)
World	5.3	2.8	– 0.6	4.8
Developed economies and EU	2.6	0.3	– 3.4	2.3
Middle East and North Africa	6.0	5.1	2.4	4.4

Unemployment rates (% of labour force)	2007	2008	2009	2010 (*forecast*)
World	5.6	5.7	6.3	6.2
Developed economies and EU	5.8	6.1	8.4	8.3
Middle East and North Africa	10.4	9.9	10.1	10.1

Source: official statistics, 2011

Extract B: Worrying times across the world for unemployment

In August 2011, it was reported that unemployment in the US economy had fallen in July from 9.2% to 9.1% of the labour force. This was seen by some as a turning point, a time when stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting. Oil price increases, banking crises and interest rate rises are examples of such shocks. At a time when global unemployment was around 6%, many saw the US unemployment statistic as just a tiny bright spot in an otherwise depressing picture, both in America and globally.

Data from the *International Labour Organisation* (ILO) show a picture of increasing unemployment in developed economies for the period 2007 to 2009, with some levelling out in 2010 and 2011. UK unemployment in mid-2011 was around 8%. Some had anticipated that this figure would be far higher given a significant tightening of fiscal policy in the UK, severe debt problems in parts of the eurozone and a US economy stubbornly refusing to recover. Both the eurozone and the US economies are important trading areas for the UK. Further increases in UK unemployment were seen as inevitable despite job creation taking place. The number of people in work in the UK rose by 184 000 between April and June 2011, taking the total in work to over 29 million.

STEMUP.CO.UK

The UK Government has argued that its policy of fiscal restraint is the correct one in order to reduce the budget deficit, although the Managing Director of the *International Monetary Fund* (IMF) has argued that recovery in aggregate demand is 'the single best cure for unemployment'.

However, the Managing Director of the IMF has also argued that targeted programmes in the labour market are vital, even to the extent of wage subsidies paid to employers for vulnerable groups such as the young unemployed. The more people in work, he argued, the greater the spending power available to help recovery by raising demand for goods and services. The teaching of new skills and the encouragement of occupational and geographical mobility are a vital part of such programmes. For example, in the UK, the Government's Work Based Learning Programme includes apprenticeship programmes aimed at unemployed young people. Another targeted UK scheme is the Work Programme. This is designed to help the long-term unemployed of whatever age to find a job.

Such supply-side measures are regarded by some as an irrelevance in the short term when stimuli to aggregate demand are seen to be so urgently needed. However, all economies need to look at their long-term performance, and supply-side measures can create a stronger labour market. Economic recovery is then more likely to occur.

Source: official statistics, 2011

0 1 Using **Extract A,** identify **two** significant points of comparison between annual real GDP growth and unemployment for the period 2007 to 2010. *(5 marks)*

0 2 **Extract B** (lines 3–4) states that 'stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting'.

Explain why stronger real GDP growth would signal an economic recovery **and** analyse how **one** economic shock might prevent recovery in an economy. *(10 marks)*

0 3 **Extract B** (lines 21–22) suggests that 'targeted programmes in the labour market are vital' in order to reduce unemployment.

Using the data and your economic knowledge, to what extent would you agree that such programmes are likely to be the most effective way of reducing unemployment in developed economies such as the UK? Justify your answer. *(25 marks)*

Turn over for Context 2

STEMUP.CO.UK

Do **not** answer Context 2 if you have answered Context 1.

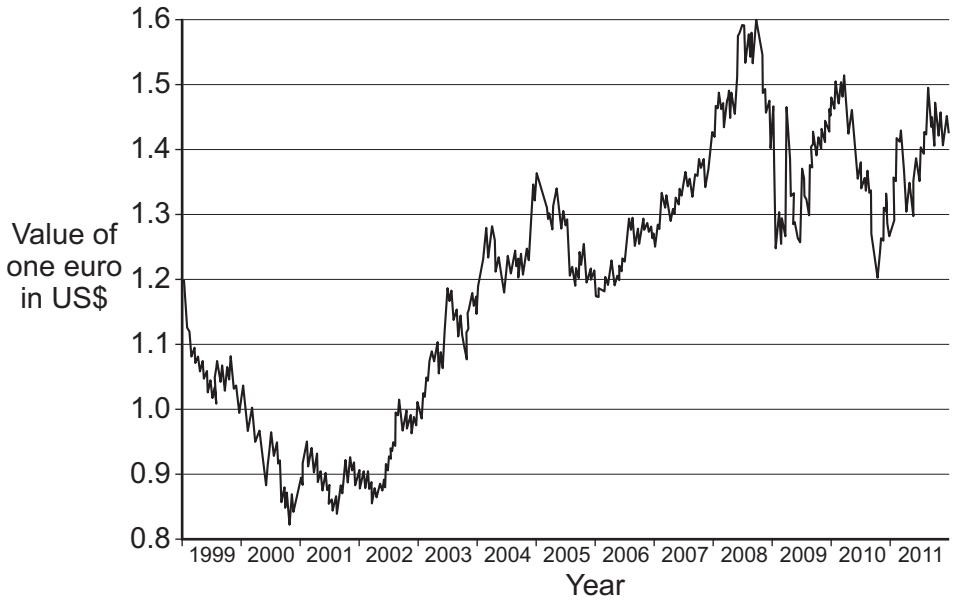
OR **Total for this Context: 40 marks**

Context 2

THE EUROPEAN UNION CONTEXT

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

Extract C: The US$/euro exchange rate, 1999 to 2011



Source: European Central Bank, 2012

Extract D: Can the eurozone survive?

Before the global recession of 2008, the euro had emerged as a successful major currency, making travel and trade for member countries much easier. Those countries traditionally with weaker currencies, such as Italy, Greece and Spain, were given a degree of stability which fostered economic growth. Some leading economists and politicians were urging the UK to adopt the euro, seeing it as a major step towards the full integration of the UK into the European Union (EU).

The global recession changed everything. By 2011, there were many in the UK relieved that we were still outside the eurozone. The growing debt crisis in the eurozone has inevitably had repercussions for the euro. Stronger members found themselves being called upon to offer financial support to those economies in trouble. Media reports began to suggest that the ultimate outcome of the debt crisis would be the break-up of the eurozone, with some of the weaker members such as Spain, Italy and Greece re-adopting their former national currencies.

The UK Government has adopted a policy of fiscal restraint in order to reduce annual borrowing and to try to limit the growth of the National Debt (the total outstanding debt of the government). It urged the weaker members of the eurozone in particular to adopt a similar policy if they were to retain membership.

STEMUP.CO.UK

However, the potential benefits of leaving the eurozone are not lost on some politicians and economists within the weaker economies. One such benefit is the absence of the same 'one-size-fits-all' interest rate. For example, some countries still in recession in the eurozone saw their interest rates, as set by the European Central Bank, rise to 1.25% in July 2011. This was at a time when the Bank of England kept the UK Bank Rate at 0.5%. Countries could also restore an exchange rate for their own currencies which would give them a competitive edge, rather than being forced to cut wages and jobs. They would also not be obliged to follow such a strict policy of fiscal restraint which remaining members would have to follow.

There are others, however, both within these countries and beyond, who warn against departure from the eurozone. It is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone. The impact would depend on a number of factors, including how many countries left and which countries these were. It might also depend on the degree of economic instability which departure from the eurozone might cause in those countries as they restored their national currencies, and the impact on the stability of the remaining members of the eurozone. It has to be borne in mind, however, that the EU would still exist.

The UK might expect disruption to trade, at least in the short term, with consequences for the balance of payments. Another banking crisis could also emerge. International money, seeking a safe haven, might favour the pound sterling and thus strengthen its external value. These potential developments have implications for UK growth and employment and pose yet another threat to the current recovery. The UK might be relieved to be outside the eurozone. However, the UK is certainly not immune from the possible consequences of its break-up.

Source: various sources, 2011

0 4 Using **Extract C**, calculate the price in dollars of a good exported from the eurozone to the US at the start of 1999 priced at 20 euros **and** identify **one** significant feature of the dollar/euro exchange rate for the period 1999 to 2011. *(5 marks)*

0 5 **Extract D** (lines 19–26) refers to economies which, if they left the eurozone, would no longer be obliged to follow such a strict policy of fiscal restraint and could enjoy other economic benefits.

Explain the phrase 'policy of fiscal restraint' **and** analyse **one** potential economic benefit for an economy if it leaves the eurozone. *(10 marks)*

0 6 **Extract D** (lines 28–29) states that it 'is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone'.

Using the data and your economic knowledge, assess the possible impact on the UK economy if a number of countries leave the eurozone. *(25 marks)*

Turn over for Section B

STEMUP.CO.UK

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

'Globalisation has made many economies more prosperous, but all economies have been made more vulnerable to economic shocks.'

0 7 Explain the term 'globalisation' **and** the role that multinational companies play in the development of globalisation. *(15 marks)*

0 8 To what extent, if at all, have the economic consequences of globalisation differed between developed and developing countries? *(25 marks)*

OR

Essay 2

In March 2011, the UK Office for Budget Responsibility (OBR) forecast that the budget deficit would fall from 7.9% of GDP in the financial year 2011–2012 to 1.5% in 2015–2016.

0 9 Explain the term 'living standards' **and** analyse how cuts in government spending to lower the budget deficit might affect living standards in the UK. *(15 marks)*

1 0 Discuss whether the UK Government should **either** raise taxes **or** cut government spending to achieve its 2015–2016 fiscal objective. *(25 marks)*

OR

Essay 3

'The avoidance of price deflation must always be the major macroeconomic objective.'

1 1 Explain how changes in the price level in the UK are measured through the use of price indices such as the RPI and CPI. *(15 marks)*

1 2 Evaluate the view that the avoidance of price deflation should always be the major macroeconomic objective. *(25 marks)*

END OF QUESTIONS

STEMUP.CO.UK

There are no questions printed on this page

There are no questions printed on this page

Copyright © 2013 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1



General Certificate of Education (A-level)
January 2013

Economics ECON4

(Specification 2140)

Unit 4: The National and International Economy

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available from: aqa.org.uk

Copyright © 2013 AQA and its licensors. All rights reserved.

Copyright
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334). Registered address: AQA, Devas Street, Manchester M15 6EX.

Advanced Level Economics Unit 4

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

(i) **An issue-based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

(ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

STEMUP.CO.UK

AQA ADVANCED LEVEL (A2) ECONOMICS

LEVELS OF RESPONSE MARK SCHEME FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) **Good analysis and good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

An Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgments about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

STEMUP.CO.UK

1 THE GLOBAL CONTEXT — Total for this Context: 40 marks

01 Using **Extract A,** identify **two** significant points of comparison between annual real GDP growth and unemployment for the period 2007 to 2010. *(5 marks)*

Identifying comparisons:

For identifying one comparison and providing supporting data for both GDP growth and unemployment with unit shown (%) and with **growth** of GDP explicitly referred to.	**3 marks (1 + 2)**
For identifying one comparison and providing supporting data only in terms of either GDP growth or unemployment with unit shown (%) and/or without **growth** of GDP explicitly mentioned.	**2 marks (1 + 1)**
For identifying one comparison and using data without units shown as appropriate.	**2 marks**
For identifying one comparison without supporting data and/or without **growth** of GDP explicitly referred to.	**1 mark**
For a 'trawl' through the data which includes one or a number of statistics but no comparison.	**0 marks**

Examples of comparisons include:

- for the world and developed economies/EU both GDP growth rates and unemployment worsen between 2007 and 2009, eg world GDP growth from 5.3% to -0.6% and world unemployment from 5.6% to 6.3%
- none of the forecasts for 2010 for GDP growth or unemployment suggests a worsening picture, eg unemployment for the Middle East and North Africa at least shows a constant picture of 10.1% but its GDP growth shows a rise from 2.4% to 4.4% (candidates might quite correctly express this point as an improving picture for the world and both regions shown for GDP growth and unemployment except for the Middle East and North Africa whose unemployment remained constant)
- world GDP growth and unemployment were at their most favorable in 2007 with world GDP growth at 5.3% and unemployment at 5.6%
- the Middle East and North Africa show higher actual GDP growth rates but also higher unemployment than the world as a whole and developed economies/EU, eg in 2008 GDP growth in ME/NAf was 5.1% and unemployment was 9.9% compared to 2.8% and 5.7% respectively in the world as a whole
- the range of values in the GDP growth rate data as a whole is almost twice that (9.4% points) of the unemployment data (4.8% points).

MAXIMUM FOR PART 01: 5 MARKS

STEMUP.CO.UK

02 **Extract B** (lines 3–4) states that 'stronger real GDP growth would signal an economic recovery despite the effects of economic shocks persisting'.

Explain why stronger real GDP growth would signal an economic recovery **and** analyse how **one** economic shock might prevent recovery in an economy.

(10 marks)

Explanation

For defining and/or explaining stronger real GDP growth (do not penalise candidates if 'stronger' doesn't feature in their definition/explanation).	**Up to 2 marks for a definition(ensuring that the definition is not also credited as part of the analysis) and a further 2 marks for any explanation, eg showing the components of GDP**
For defining and/or explaining economic recovery. A reference to economic shocks might also be included here and should be rewarded.	**Up to 2 marks for a definition (do not also credit in the analysis) and a further 2 marks for an explanation, eg linking it to other parts of the economic cycle**
For references to such factors as investment, reduced unemployment, the multiplier.	**Up to 2 marks per reference explained**
For use of a relevant diagram, eg AD/AS, output gaps.	**Up to 2 marks but not additional to the maximum 4 marks if this maximum has been awarded** **Diagram: 1 mark for labeling, 1 mark for correct information shown**

Maximum 4 marks for the explanation

Analysis of an economic shock. Award one mark for each step in a logical chain of reasoning.

The way in which rising oil prices might impact on recovery by causing inflation **(1 mark)** or worsening inflation **(1 mark)** by cost-push building on demand–pull inflation **(1 mark)**. Oil prices will mean additional costs for industry **(1 mark)** and the consequent higher prices to consumers might discourage consumption **(1 mark)** together with higher fuel prices causing less disposable income to be available to spend on non-fuel consumption **(1 mark)**. The authorities' counter-inflation policies might also impede recovery **(1 mark)** such as higher interest rates **(1 mark)**.	**Up to 8 marks but do not award a mark for identifying oil prices which is in the data**.
A banking/financial markets crisis which restricts investment.	**Up to 8 marks but do not award a mark for identifying banking crisis which is in the data**.
Interest rate increases	**Up to 8 marks but do not award a mark for identifying interest rate increase which is in the data**.

STEMUP.CO.UK

Problems in leading sectors such as housing	**Up to 8 marks**
A tightening of fiscal policy	**Up to 8 marks**
Collapse of the euro/exit of some members of the eurozone.	**Up to 8 marks**
Any other valid shock analysed	**Up to 8 marks per issue**
Use of appropriate diagrams, eg AD/AS	**Up to 2 marks per diagram (1 mark for labeling, 1 mark for correct information shown) to a maximum of 3 marks**
References to the UK and/or other economies	**1 mark per reference up to a maximum of 2 marks**

A candidate can be awarded a maximum of **6 marks** for the analysis if the explanation has not been attempted. (If only the explanation is attempted, candidates are restricted to 4 marks)

Where a candidate analyses more than one shock, award marks to the best one.

MAXIMUM FOR PART 02: 10 MARKS

STEMUP.CO.UK

03 **Extract B** (lines 21–22) suggests that 'targeted programmes in the labour market are vital' in order to reduce unemployment.

Using the data and your economic knowledge, to what extent would you agree that such programmes are likely to be the most effective way of reducing unemployment in developed economies such as the UK? Justify your answer.

(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• unemployment defined • types of unemployment • the meaning of 'targeted programmes' • developed economies.
Developing the response to the question (Application)	• reference to global unemployment of 6% (line 5) • the value of the programmes in light of possible fiscal restraint in the UK, for example (lines 11 – 12) • the IMF assertion that stimuli to AD is the single best cure (lines 19 – 20) • reference to wage subsidies to lower the cost to employers of hiring labour (line 22 – 23) • the importance of skills and mobility (lines 25 – 26) • the multiplier • the accelerator • aggregate demand.
Analysis	• examples of supply-side targeted programmes • the objectives of such programmes • the possible limitations of such programmes • the alternative demand-side approach to curing unemployment • analysis of such policies • a comparison of both approaches • references to the real world • diagrams

STEMUP.CO.UK

Evaluation	• the importance of identifying the main type of unemployment • the possibility of different types of unemployment existing at one time, eg structural and cyclical, so that a combination of demand-side and supply-side policies is needed • the importance of the programmes to productivity improvements and hence competitiveness in world markets as economies recover • the extent of the resources going into such programmes • the duration of such programmes • long term v short term considerations • the need for individual developed economies to get the balance right between demand-side and supply-side approaches to unemployment to suit particular circumstances • a final judgment on the role of the programmes. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART 03: 25 MARKS

STEMUP.CO.UK

2 THE EUROPEAN UNION CONEXT **Total for this Context: 40 marks**

04 Using **Extract C**, calculate the price in dollars of a good exported from the eurozone to the US at the start of 1999 priced at 20 euros **and** identify **one** significant feature of the dollar/euro exchange rate for the period 1999 to 2011.
(5 marks)

The calculation: **Value: In 1999, a euro was worth $1.20, causing the American price of the good exported from the Eurozone and priced at €20 to be (20 x $1.20) $24.00**.

For the correct answer (working need not be shown) with $ sign shown, ie $24	**3 marks (2 + 1)**
For the correct answer without the $ sign shown, ie 24.	**2 marks**
For showing the correct method but arriving at the wrong answer.	**1 mark**

Identifying one significant feature:

For identifying a significant feature and providing supporting data with the appropriate currency shown.	**3 marks (1 + 2)**
For identifying a significant feature but using data without the appropriate currency shown.	**2 mark**
For identifying a main feature without supporting data	**1 mark**
For simply providing one item of data with or without the unit shown or providing a 'trawl' and including a number of statistics, none of which can be regarded as particularly significant.	**0 marks**

Significant features include:

- the volatility of the euro's value against the US $, eg in 2002 fluctuations between $0.85 and $1.05
- at the start of the period in 1999 the euro had a value of $1.2, rising to $1.43 by the end of 2011
- the peak value of the euro against the $ was during 2008 when one euro was worth $1.6
- the lowest value of the euro against the $ was during the year 2000 at $0.82
- 2008 and 2010 saw the most significant falls in the value of the euro against the $ in any single year, eg in 2008 from $1.6 to $1.25.

When values are being quoted, allow a 0.02 discrepancy +/-

MAXIMUM FOR PART 04: 5 MARKS

STEMUP.CO.UK

05 **Extract D** (lines 19–26) refers to economies which, if they left the eurozone, would no longer be obliged to follow such a strict policy of fiscal restraint and could enjoy other economic benefits.

Explain the phrase 'policy of fiscal restraint' **and** analyse **one** potential economic benefit for an economy if it leaves the eurozone. *(10 marks)*

Explanation

Defining/explaining fiscal policy, fiscal restraint, economic benefit.	**Up to 2 marks (ensuring that any definition is not also credited as part of the analysis)**
Explaining the possible direction of fiscal policy to achieve fiscal restraint, perhaps with some reference to what might be meant by 'strict'.	**Up to 2 marks**
Reference to the macroeconomic aims of such fiscal restraint via AD.	**Up to 2 marks**
Use of relevant diagrams, eg AD/AS	**Up to 2 marks but not additional to the maximum 4 marks if this maximum has been awarded**.

Maximum of 4 marks for the explanation

Analysis of an economic benefit gained from leaving the eurozone. Award one mark for each step in a logical chain of reasoning

Greater freedom in monetary policy, eg setting interest rates so that national interest rates suit national economic trends **(1 mark)** and deciding on domestic monetary growth **(1 mark**). This will allow interest rates to be raised if boom conditions emerge **(1 mark)** making it possible to adopt a counter-inflation interest rate policy **(1 mark).** Equally, ECB rates will not have to be accepted if the national economy experiences a downturn **(1 mark)** when it would be necessary to lower interest rates **(1 mark)** in order to raise components of AD in the economy **(1 mark)**, such as consumption or investment **(1 mark)**.	**Up to 8 marks but not a mark for identifying the benefit because it is mentioned in the data.**
The ability to devalue a restored national currency.	**Up to 8 marks but not a mark for identifying the benefit because it is mentioned in the data**
Greater freedom on fiscal policy.	**Up to 8 marks but not a mark for identifying the benefit because it is mentioned in the data and in the question itself.**

STEMUP.CO.UK

Freedom from the 'legal' obligation to offer financial support to other eurozone economies in crisis should it be in a position to do so.	**Up to 8 marks; a mark may be awarded here for citing the benefit because it is not mentioned explicitly in the data**
Any other valid analysis; for example, it would be conceivable for a candidate to argue that there is a general benefit of greater freedom on national policies while retaining the benefits of EU membership such as CAP, SEM, CET, with one or other of the latter being given some weight in an answer.	**Up to 8 marks per issue analysed including one mark for citing the benefit**.
Use of appropriate diagrams, eg AD/AS, interest rates.	**Up to 2 marks per diagram (1 mark for labeling, 1 mark for correct information shown) to a maximum of 3 marks**.
The UK/eurozone - £/€ experience	**1 mark per reference to a maximum of 2 marks**.

A candidate can be awarded a maximum of **6 marks** for the analysis if the explanation has not been attempted. (If only the explanation is attempted, candidates are restricted to 4 marks).

Where a candidate analyses more than one benefit, award marks to the best one.

MAXIMUM FOR PART 05: 10 MARKS

STEMUP.CO.UK

06 **Extract D** (lines 28–29) states that it 'is difficult to predict what the economic impact on the UK might be should there be a break-up of the eurozone'.

Using the data and your economic knowledge, assess the possible impact on the UK economy if a number of countries leave the eurozone. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded more than **15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• the Eurozone and the EU • UK status • economic criteria for measuring impact • the likely nature of Eurozone break-up.
Developing the response to the question (Application)	• the degree of stability that had existed before the global financial crisis especially for the weaker members (lines 3 – 4) • the significance of the debt crisis (lines 8 – 13) • the importance of eurozone stability for the UK (lines 35 – 39) • the inability of the UK to be immune from the eurozone problems even though it lies outside the eurozone (lines 39 - 41) • GDP • injections/withdrawals from the circular flow • cyclical/structural unemployment.
Analysis	• economic instability in the eurozone or more widely in the EU • the impact on the £ • the impact on the euro • the status and stability of the restored national currencies of those economies leaving the eurozone • UK economic growth • UK employment.

STEMUP.CO.UK

	• UK balance of payments, current and capital accounts, especially the impact on UK exports • the impact on the UK banking/financial sector • the scale of any UK commitment to 'bail-outs' • diagrams to help the analysis • reference to the real world.
Evaluation	• the significance of which countries actually leave the eurozone • how many countries decide to leave • the policies those countries decide to pursue following their exit • whether or not the exit of some countries leaves the eurozone as a much stronger economic entity with which the UK establishes even stronger economic ties • the relative value of the £ in relation to the newly restored national currencies • if there is a continuing crisis whether or not the UK can compensate by developing stronger economic ties elsewhere in the world • whether the UK and the remaining members of the eurozone pursue policies intended to support the economies exiting from the eurozone • the exit of countries in the context of the state of the world economy at that point and the EU economy in particular • the potential significance of the EU still remaining as an economic entity with, for example, the SEM still intact • reference to what actually happens when this paper is sat by candidates and what is suggested in the data • a final judgment on the issue of countries leaving the eurozone. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART 06: 25 MARKS

STEMUP.CO.UK

SECTION B

Essay 1 **Total for this Essay: 40 marks**

07 Explain the term 'globalisation' **and** the role that multinational companies play in the development of globalisation. *(15 marks)*

For explaining the term 'globalisation'; award one mark for each step in a logical chain of reasoning.

• defining globalisation, eg the greater integration of the world economy; the development of the world into one market place • greater international trade **(1 mark)**. Trade brings countries together **(1 mark**) and the greater openness that globalisation brings, allows development of a country's comparative advantage **(1 mark)** in an era of greater freedom from protectionist policies **(1 mark**). A numerical example of comparative advantage **(up to 4 marks)** • investment • technology • international branding • labour movements • distinguish between the widening of globalisation (more countries becoming involved) and the deepening of globalisation (an increasingly greater part of a country's economic activity being drawn into the process) • any other relevant aspect explained.	**Up to 2 marks for a definition and up to 4 marks per aspect of globalisation explained to a maximum of 10 marks (including definition marks)**
For explaining the role of MNCs in the globalisation process; award one mark for each step in a logical chain of reasoning	
For a definition of MNCs, eg a corporation or enterprise which manages production or delivers services in more than one country.	**Up to 2 marks**
Example (s) of MNCs	**1 mark in total**
Explanation MNCs will be heavily involved in foreign direct investment (FDI) **(I mark)** which is investment by companies which have their head offices in other countries **(1 mark)**. It will strengthen economic links between countries **(1 mark)** and so further the process of global integration **(1 mark)**. Investment can establish production units in a number of countries **(1 mark)** and if necessary initiate a modernisation of production processes **(1 mark)**.	**Up to 5 marks per aspect of MNCs' work explained to a maximum of 10 marks**

STEMUP.CO.UK

• fostering trade • spreading technology • making developing countries aware of the potential benefits of becoming a part of a globalised world • encouraging migration of labour • establishing or strengthening supply chains • any other aspect of MNCs' work relevant to globalization.	
Use of diagrams to help support explanations of globalisation or the role of MNCs, eg MEC (but not in specification), comparative advantage, AD/AS.	**Up to 2 marks per diagram (1 mark) for labeling, (1 mark) for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation.**
References to the UK and/or other economies	**1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above.**

It may be that a candidate deals with the role of multinational companies within the general explanation of globalisation rather than as a separate part of the answer. In this case, for references to the role of MNCs, examiners should ignore the mark constraint identified for the first part of the mark scheme (4 marks maximum for any aspect of globalisation explained) and use that part of the mark scheme that refers explicitly to MNCs when awarding marks for this aspect of the answer. (ie maximum 10 marks)

Award a maximum of **10 marks** if both parts of the question are not addressed.

MAXIMUM FOR PART 07: 15 MARKS

STEMUP.CO.UK

08	To what extent, if at all, have the economic consequences of globalisation differed between developed and developing countries? *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding is shown**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• globalisation • developed and developing economies • criteria which underlie an assessment of economic consequences
Developing the response to the question (application and analysis)	• economic growth • labour flows • capital flows • employment/unemployment, eg structural unemployment • balance of payments on current and capital accounts • trade and trade policy, eg exploitation of comparative advantage • MNC policies, eg branch-plant syndrome • deindustrialisation • the way in which the two categories of countries and governments within them respond to the challenges of globalisation if at all • the response of businesses in the two categories of countries, eg productivity, productive efficiency, efficiency-enhancing techniques such as Just–in–Time (JIT) and Total Quality Management (TQM) (examiners please note that these terms are not in the specification) • exploitation • the impact on the distribution of income and/or wealth • impact on living standards of different income groups & regions • use of diagrams • references to the real world.
Evaluation	• the possible error in just comparing two groups of countries when the diversity of experience and development within them is there for all to see • the relative degree of dominance of MNCs in each category and the nature of MNC policies

STEMUP.CO.UK

	• relative degrees of vulnerability to major global shocks • only conditional judgments are possible because the global economy is far from the end of the process of globalisation • the degree to which national governments will stand up for the national interest, perhaps in a selfish, nationalistic way • resources available to individual national governments to lend support to national businesses • the potential greater flexibility of response of developing countries to changes arising from globalisation • quantifying different costs and benefits may be difficult, eg not being able to determine what part of a country's environmental costs can be attributed to the globalisation process • a final judgment, eg the extent of benefits will vary across economies, the degree of vulnerability perhaps much less so. *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.*

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

USE THE LEVELS MARK SCHEMES ON PAGES 3 & 4

MAXIMUM FOR PART 08: 25 MARKS

STEMUP.CO.UK

09 Explain the term 'living standards' **and** analyse how cuts in government Spending to lower the budget deficit might affect living standards in the UK.
(15 marks)

For explaining the term 'living standards'; award one mark for each step in a logical chain of reasoning

• 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.	**Up to 2 marks for a definition and up to 4 marks per aspect of living standards explained to a maximum of 10 marks (including definition marks)**

For explaining how cuts in government spending might affect living standards; award one mark for each step in a logical chain of reasoning.

For a definition of government spending/fiscal policy/budget surplus/deficit.	**Up to 2 marks per definition to a maximum of 3 marks**
Explanation: • welfare spending **(1 mark)** might have a very direct effect on living standards **(1 mark)** because cuts in benefits will lower disposable income **(1 mark)** so lowering spending and consumption **(1 mark)**. Job Seeker's Allowance and Child Benefit come into this category **(1 mark)** • 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.	**Up to 5 marks per effect explained to a maximum of 10 marks**
Use of diagrams to help support explanations, eg AD/AS	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation**
References to the UK and/or other economies	**1 mark per reference to a maximum of 2 marks. These are in addition to the marks awarded above.**

Award a maximum of **10 marks** if both parts of the question are not addressed.

MAXIMUM FOR PART 09: 15 MARKS

STEMUP.CO.UK

10	Discuss whether the UK Government should **either** raise taxes **or** cut government spending to achieve its 2015 – 2016 fiscal objective. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding is shown**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• UK fiscal policy and budgetary positions • general tax principles, eg fairness, ability to pay, incentives • examples of UK taxes and tax rates • the distinction between direct and indirect taxation • different categories of spending, eg capital v current • the nature of UK Government spending cuts.
Developing the response to the question (application and analysis)	• direct taxation and the issue of incentives (income and substitution effects) • corporate taxes v taxation of household income • Laffer Curve analysis (not mentioned in the specification) • indirect taxes and the issue of their regressive nature • equity and equality • supply and demand analysis to show the possible incidence of taxation • the possible effects of increasing tax rates on total tax revenue per tax • public spending and multiplier/reverse-multiplier • government spending cuts and the impact on private sector business • cuts to capital spending and macroeconomic implications • cuts to current spending and transfer spending (references to living standards need to build on what might have been said in **09** in an evaluative way) • use of diagrams • references to the real world.

STEMUP.CO.UK

Evaluation	• the need for a balanced approach to the use of tax and spending policies • relative distributional effects • relative impact on economic recovery • assessment of the use of a particular tax; any increase in its tax rate(s) may be influenced by the degree of change in the rate(s) being imposed • judgments made on the actual effect on living standards by individual taxes or particular aspects of government spending, whatever the ultimate aim is of a budget surplus • the national and international macroeconomic climate in which changes are being made • how tax/government spending changes relate to the supply- side ethos of recent governments • surveys which point to a limited or zero impact on incentives • to work resulting from changes in income tax • welfare-spending cuts and the unemployment trap • tax changes and the poverty trap • the need for coordination of spending and tax policies, eg needing to avoid conflict between welfare benefits and harshly regressive indirect taxes, or assessing if one compensates for the other • the impact of individual taxes on macroeconomic indicators, eg indirect taxes on the rate of inflation • the assessment of both might be affected by the speed with which spending cuts/tax increases are implemented • a final judgment regarding the best policy for the • macroeconomy, individuals, for living standards in general, for the achievement of other macroeconomic objectives. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART 10: 25 MARKS

STEMUP.CO.UK

11	Explain how changes in the price level in the UK are measured through the use of price indices such as the RPI and CPI. *(15 marks)*

For: • price indices • UK inflation or deflation.	**Up to 2 marks for a definition or explanation to a maximum of 4 marks**

For explaining aspects of measurement of changes in the price level:

Use of indices to calculate % rates of changes in prices	**Award 1 mark for each relevant point in a logical chain of reasoning made up to a total of 15 marks. The section on the left on weighting shows, as an example, how 5 marks could be awarded for this feature of indices and an accompanying explanation. It may be, however, that candidates simply list features such as weights and the FES without further explanation and to each of these 1 mark can be awarded.**
The concept of a 'basket' of goods and the 650 'representative' items.	
Family Expenditure Survey	
The concept of the average family	
The system of weighting **(1 mark)**. Weights reflect the fact that some items are more important than others in terms of their share of household spending **(1 mark)**. Price increases for certain items have a larger impact on the overall change in the construction of the 'basket' of goods **(1 mark)**. Weights are updated each year to reflect changes in household spending **(1 mark)** and to reflect the introduction of new items or removal of old ones **(1 mark)**.	
A numerical example	
Comparisons between different types of UK price indices (only RPI and CPI are mentioned in the specification).	
Any other valid feature of measurement using indices, eg large representative sample of prices collected each month; price relatives to calculate an individual item in the index.	
Use of diagrams to help support explanations, although diagrams are unlikely to feature in this part of the answer.	**Up to 2 marks per diagram (1 mark for labeling, 1 mark for correct information shown) to a maximum of 4 marks. These are in addition to the marks awarded above for explanation**
References to UK and other economies	**1 mark for each reference up to a maximum of 2 marks**

MAXIMUM FOR PART 11: 15 MARKS

STEMUP.CO.UK

12	Evaluate the view that the avoidance of price deflation should always be the major macroeconomic objective. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis and good evaluation**	**22 to 25 marks** *Mid-point 24 marks*
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17 to 21 marks** *Mid-point 19 marks*
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10 to 16 marks** *Mid-point 13 marks*
Level 2	**Weak with some understanding is shown**	**4 to 9 marks** *Mid-point 7 marks*
Level 1	**Very weak**	**0 to 3 marks** *Mid-point 2 marks*

Introduction	• inflation and deflation defined • the issue of price stability as an objective • the issue of avoidance of deflation, eg the possibility of being able to do so • other macroeconomic objectives • the UK experience • the current inflation target of 2% (CPI).
Developing the response to the question (application and analysis)	• 'benign' v 'malevolent' • the benefits to competitiveness of a period of deflation • the benefits to real income and real purchasing power, boosting AD • the benefits of reflationary policies to correct deflation • the danger of entering a 'liquidity trap' scenario (examiners note that this term is not in the specification) • the impact on the real value of savings • the impact on business and household confidence • postponement of consumption • the impact on profits, for example, if consumption is postponed or wages are 'sticky' downwards, and hence the impact on investment • the ultimate damage to growth and jobs • the impact on creditors/debtors • the ultimate impact on living standards • deflation increasing the real burden of debt • arbitrary distributional effects • possible adverse macroeconomic implications overall worsening the fiscal position • use of diagrams • reference to the UK • reference to other economies.

STEMUP.CO.UK

Evaluation	• 'a' or 'the' major macroeconomic objective • the degree to which the problem can be anticipated and corrective policies followed • the degree of deflation • the duration of the problem • deflation or inflation? Both to be avoided and the control of both seen as a major economic objective • avoidance of deflation as always needing to be the major objective: an assessment of deflation as the major macroeconomic objective in relation to an assessment of the importance of other macroeconomic objectives, eg deflation and the balance of payments as opposed to deflation and economic growth • the issue of whether equal weight needs to be given to all macroeconomic objectives and their interrelationships recognised • such weighting may change to suit changing circumstances • an assessment of deflation in relation to a possible alternative, ie mild inflation which might be welcomed or runaway inflation which would not • the simultaneous experience of other economies • mild deflation as a minor problem compared to the effects of the authorities over-reacting and reflating too strongly • a final judgment, eg price stability needs to be the major macroeconomic objective with control over changes in the price level whether these are pointing to inflation or deflation because this can be seen as the foundation upon which a strong macroeconomy can be built. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PAR T 12: 25 MARKS

STEMUP.CO.UK

General Certificate of Education
Advanced Level Examination
June 2012

Economics ECON4

Unit 4 The National and International Economy

Wednesday 20 June 2012 9.00 am to 11.00 am

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

STEMUP.CO.UK

Section A

Answer **EITHER** Context 1 **OR** Context 2.

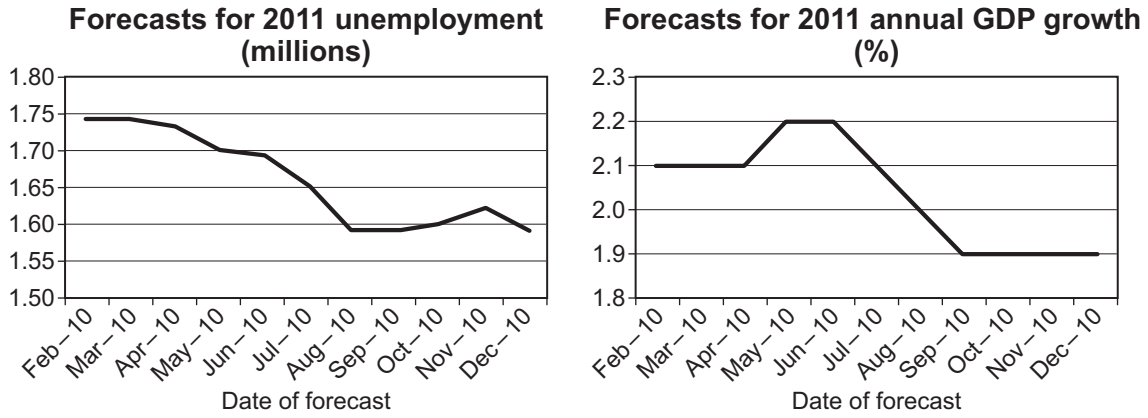
EITHER **Total for this Context: 40 marks**

Context 1

THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Context 1 which follow.

Extract A: Monthly average of forecasts made in 2010 for 2011 UK unemployment and 2011 UK annual GDP growth*



* The data show the average of forecasts for 2011 made each month in 2010. For example, the figure for unemployment of 1.7 million for June 2010 is the average of all the forecasts made in that month (June 2010) for unemployment in 2011. The figure for annual GDP growth of 1.9% for September 2010 is the average of all the forecasts made in that month (September 2010) for the annual rate of growth of GDP in 2011.

Source: official statistics, accessed on 6 January 2011

Extract B: Winners and losers

The debate over the consequences of globalisation for individual countries continues. Inevitably, there will be benefits and costs, winners and losers. For example, whilst the UK has experienced deindustrialisation, its service sector has been successful in world markets.

As the debate continues, one aspect of globalisation cannot be disputed: that the greater integration of economies has meant that major events occurring in one part of the world will have an impact not just on the affected country or region but are now much more likely to have global significance.

Some events are known about well in advance of them actually happening. Major sports competitions are an example. In 2012, for instance, the UK will host the Olympic Games. Similarly, Russia and Qatar will host the football World Cup in 2018 and 2022 respectively. The economic impact of such events on host countries is likely to be positive. For other countries, the immediate impact is likely to be more limited. However, the UK and other economies could benefit if these events make the host countries more open to trade and investment in the long term.

STEMUP.CO.UK

Other events are far less predictable or are completely unpredictable. For example, how might the UK cope with a disruption to gas and oil supplies if relations with Russia deteriorate or political turbulence in the Middle East escalates? What path to recovery will the UK take following the devastating effects of the 2008 US financial crisis?

Generalisations about the economic impact of natural disasters are often unhelpful. Hurricane Katrina in 2006, which caused billions of dollars of damage in the New Orleans area of the USA, had minimal economic impact on the rest of the world. However, the Japanese earthquake and tsunami in 2011 are on a different scale. Japan accounts for 7% of world GDP. There are fears that the scale of the damage may lead to a return to recession in Japan, as fearful Japanese consumers spend less and save more. Global supply chains originating in Japan, such as car components supplied to the rest of the world, have been severely disrupted. The UK, as well as Japan's other trading partners, will struggle to maintain exports to the Japanese market until stability is restored.

Like any other country, the UK needs to have a strong economy to be able to respond successfully to all types of global event and to secure sustained economic growth. Important factors include high productivity, resource mobility, innovation, skilled labour, a strong infrastructure in its widest sense and general flexibility in the economy. The ability to make use of these supply-side qualities will, however, also depend on aggregate demand. The impact of major global events on UK aggregate demand will inevitably vary considerably, positively or negatively, with unknown consequences for macroeconomic performance.

Source: news reports, 2010/11

0 1 Using **Extract A**, calculate to one decimal place the % change in the average unemployment forecast in February 2010 compared with December 2010 **and** identify **one** significant point of comparison between the forecasts for unemployment and GDP growth over the period shown. *(5 marks)*

0 2 **Extract B** (lines 13–15) refers to the possible benefit to the UK and other economies if countries hosting major sports competitions become more open to investment in the long term.

Explain the term 'investment' **and** analyse **two** possible economic benefits for the UK when it is investing overseas. *(10 marks)*

0 3 **Extract B** (lines 29–30) states that 'the UK needs to have a strong economy to be able to respond successfully to all types of global event…'.

Using the data and your economic knowledge, assess the significance to UK macroeconomic performance of major global events such as sports competitions, natural disasters and economic downturns. *(25 marks)*

STEMUP.CO.UK

Do **not** answer Context 2 if you have answered Context 1.

OR **Total for this Context: 40 marks**

Context 2

THE EUROPEAN UNION CONTEXT

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

Extract C: Turkey: selected macroeconomic indicators, 2008 to 2012

	Actual		*Forecast*		
	2008	**2009**	**2010**	**2011**	**2012**
GDP at current prices (US$ billions)	730	614	729	790	846
Inflation (%)	10	6	9	6	6
Unemployment (% of labour force)	11	14	11	11	10
Current account balance (US$ billions)	–42	–14	–38	–43	–48

Figures are rounded.

Source: official statistics, accessed on 6 January 2011

Extract D: Turkey – gateway to Asia

Turkey has been in talks since 2005 regarding possible membership of the European Union (EU). While further enlargement of the EU causes some concern, serious consideration needs to be given to Turkey. Its geographical position links Europe and Asia. Since Asia is currently driving world economic growth, Turkey can be an important strategic gateway to Asia for the EU.

The UK Government supports Turkey's application for EU membership but questions still persist. If Turkey joins the EU, can the UK successfully take up the resulting trade and investment opportunities? Will the UK be overwhelmed by imports and cheap migrant labour? Will UK businesses be determined enough to grasp any opportunities?

Turkey has a population of 75 million, which is expected to rise to 100 million by 2020. The average age is just 27 and it has vast economic potential. Turkey's GDP is ranked 18th in the world, and GDP per capita is £7163. Like the UK, there has been some negative growth in recent years but the economy recovered to achieve 11% growth in the first quarter of 2010. Between 2002 and 2007, Turkey's annual average economic growth of 7% was far greater than that of the UK.

About 50% of Turkey's exports are to Europe, with textiles being particularly important. Machinery and semi-manufactured goods are major imports. The UK does not yet rank alongside countries such as Germany, Italy, China and the US as important exporters to Turkey, but opportunities certainly exist.

STEMUP.CO.UK

Turkey has had a reputation for economic instability. Since 2005, for example, inflation has been between 5% and 12%. Unemployment has remained in double figures: 10% of the labour force in 2005 and 14% currently. However, Turkey now boasts a relatively modest budget deficit of between 4% and 5% of GDP.

Despite a degree of instability, Turkey is seen as an attractive centre for investment. For example, the country received £115 bn in foreign direct investment in 2009. However, Turkey's infrastructure still leaves much to be desired.

UK businesses need to consider the potential economic opportunities. Lord Digby Jones, formerly of the *Confederation of British Industry* (CBI), points out that Turkey's recent economic growth is from a low base. According to Lord Jones, "Whereas a little bit of growth in a prosperous country such as Germany does not make much difference, in a developing country such as Turkey millions of people get richer". This is perhaps an exaggeration, especially in the short run, but a valid point is being made.

The UK must not be blind to the potential problems of Turkey's possible membership of the EU and must also be in a position to grasp the opportunities which are sure to appear.

Source: news reports, 2010

0 4 Using **Extract C**, calculate to one decimal place the % change in Turkey's GDP at current prices between 2008 and 2009 **and** identify **one other** significant feature of the data. *(5 marks)*

0 5 **Extract D** (lines 14–15) states: 'Between 2002 and 2007, Turkey's annual average economic growth of 7% was far greater than that of the UK.'

Explain the term 'economic growth' **and** analyse **two** possible causes of economic growth. *(10 marks)*

0 6 **Extract D** (lines 33–34) argues that the 'UK must not be blind to the potential problems of Turkey's possible membership of the EU and must also be in a position to grasp the opportunities which are sure to appear'.

Using the data and your economic knowledge, assess the potential economic consequences for the UK if Turkey joined the EU. *(25 marks)*

Turn over for the next question

STEMUP.CO.UK

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

'For a strong recovery there is a need to encourage spending, ideally by businesses but also by households in the short term.'

0 7 Explain **four** features of a recession. *(15 marks)*

0 8 Discuss the importance of low interest rates in bringing about a recovery from recession in an economy such as the UK. *(25 marks)*

OR

Essay 2

'The long-term progress made towards a free-trade world must be maintained. Calls for greater protectionism would lead to a disastrous collapse of global economic activity.'

0 9 Explain **three** protectionist policies that a government could introduce to reduce a deficit on the current account of the balance of payments. *(15 marks)*

1 0 Assess the view that the progress made towards free trade has brought significant economic benefits **both** to the UK **and** to the rest of the world. *(25 marks)*

OR

Essay 3

'UK government policy might not always be able to achieve fully all the macroeconomic objectives which are regarded as important.'

1 1 Explain how budget deficits in an economy might help to influence the rate of inflation in that economy. *(15 marks)*

1 2 Evaluate the view that, in the long run, conflict between the major macroeconomic objectives can be avoided. *(25 marks)*

END OF QUESTIONS

STEMUP.CO.UK

There are no questions printed on this page

There are no questions printed on this page

Copyright © 2012 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1



General Certificate of Education (A-level)
June 2012

Economics ECON4

(Specification 2140)

Unit 4: The National and International Economy

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available from: aqa.org.uk

Copyright © 2012 AQA and its licensors. All rights reserved.

Copyright
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX.

Advanced Level Economics Unit 4

June 2012 **ECON4**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

(i) **An issue-based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data-response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

(ii) **A levels approach.** This approach is used for parts **03** and **06** of the data-response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

STEMUP.CO.UK

AQA ADVANCED LEVEL (A2) ECONOMICS

LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY

A2 **LEVELS OF RESPONSE**	**AO1** **KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology**	**AO2** **APPLICATION of theories, concepts and terminology**	**AO3** **ANALYSIS of economic problems and issues**	**AO4** **EVALUATION of economic arguments and evidence, making informed judgements**
Level 5 22-25 marks (mid-point 24) **Good analysis and good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

An Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

STEMUP.CO.UK

1 THE GLOBAL CONTEXT — Total for this Context: 40 marks

01	Using **Extract A**, calculate to one decimal place the % change in the average unemployment forecast in February 2010 compared to December 2010 **and** identify **one** significant point of comparison between the forecasts for unemployment and GDP growth over the period shown. *(5 marks)*

The calculation:
Value: Feb 10 = 1.74m unemployed

Dec 10 = 1.59m unemployed, giving a change of (0.15/1.74 x 100)

= -8.6%

Allow answers in the range -8.4% to -8.8%. For example, assuming a forecast decline in unemployment from 1.73m to 1.58m, the figure arrived at would be -8.7%. Also reward answers which take December as the base month (0.15/1.59 x 100) 9.4%. Here the acceptable range is 9.2% to 9.6%. Credit answers within the ranges which go to more than one decimal place.

For the correct answer (working need not be shown) with negative sign shown **and** to at least one decimal place	**3 marks**
For the correct answer **without** including the negative sign (or without stating that it is a decrease in the forecast for unemployment) **and** to at least one decimal place.	**2 marks**
For showing the correct method but arriving at the wrong answer.	**1 mark**

Identifying one significant comparison:

For identifying one significant comparison and providing supporting data with units shown as appropriate.	**3 marks (1 + 2)**
For identifying one significant comparison but using data without units shown as appropriate.	**2 marks**
For referring to GDP rather than growth of GDP, or not making at least one mention in the answer of the fact that the figures are forecasts (i.e. forecasts made in 2010 for 2011).	**2 marks**
For identifying one significant comparison without supporting data.	**1 mark**
For simply providing one item of data (with or without the unit) which is therefore not a significant comparison.	**0**

Examples of significant comparisons include:

- both sets of forecasts show a decline over the period, unemployment falling from 1.74m to 1.59m and the rate of growth of GDP falling from 2.1% to 1.9%
- the forecasts made for GDP growth for 2011 between September 2010 and December 2010 are stable at 1.9% but less so for unemployment, eg November 1.63m, December 1.59m
- the forecasts made in April and May 2010 for GDP growth in 2011 show a rise from 2.1% to 2.2% whereas unemployment forecasts made in these months predict unemployment continuing to decline 1.73% to 1.7%
- forecasts made in June, July, August predict both unemployment and GDP growth falling in 2011, for example, the prediction is that unemployment in 2011 will fall from 1.7m to 1.6m.

When figures are quoted to support a comparison, allow a discrepancy of 0.02m for unemployment, 0.02% for GDP growth either way (unless, as with GDP growth forecasts at times, there is no doubt as to what the graph is indicating, eg June 2010, 2.2%).

MAXIMUM FOR PART 01: 5 MARKS

STEMUP.CO.UK

02	**Extract B** (lines 13-15) refers to the possible benefit to the UK and other economies if countries hosting major sports competitions become more open to investment in the long term. Explain the term 'investment' **and** analyse **two** possible economic benefits for the UK when it is investing overseas. *(10 marks)*

Explanation

Award 1 mark for each logical link in the chain of reasoning

For defining investment, for example, that which is spent on capital equipment which can be used to create output and/or improve efficiency.	**Up to 2 marks per point (ensuring that the definition is not also credited as part of the analysis)**
Investment and its linkage with aggregate demand	**Up to 2 marks**
Investment as an injection into the circular flow	**Up to 2 marks**
Investment and human capital	**Up to 2 marks**
Overseas investment, such as FDI, portfolio investment or investment by multinational companies.	**Up to 2 marks**
Examples of investment.	**1 mark per example to a maximum of 2 marks**
Use of technical terms, eg gross/net investment; private/social capital; physical/financial capital.	**Up to 2 marks per term explained to a maximum of 2 marks**
For use of a relevant diagram, eg circular flow	**Up to 2 marks but not additional to the maximum 4 marks for the explanation if this maximum has been awarded** **Diagram: 1 mark for labelling, 1 mark for correct information shown**

Maximum of 4 marks for the explanation

STEMUP.CO.UK

Analysis of benefit

Award 1 mark for each logical link in the chain of reasoning. Examples include:

Overseas investment spearheading trade links boosting the export sector. Overseas investment can spearhead trade links **(1 mark)** thus helping to boost the UK export sector **(1 mark)**. This in turn can be the growth inducing factor for the economy **(1 mark)**, especially by generating an export multiplier **(1 mark)** leading to an economic stimulus of the sector **(1 mark)**.	**Up to 5 marks** **Award one mark for each link in a logical chain of reasoning**
Stronger international linkages benefiting the balance of payments on current account.	**Up to 5 marks**
The potential benefits to domestic employment.	**Up to 5 marks**
Profit, interest, dividends (PID) from overseas investment and uses to which these might be put.	**Up to 5 marks**
Any other valid analysis.	**Up to 5 marks per issue**
Use of appropriate diagrams, eg AD/AS.	**Up to 2 marks per diagram** **(1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks** **These marks can be in addition to analysis marks**
References to the UK economy in the analysis.	**1 mark per reference up to a maximum of 2 marks**

A candidate can be awarded a maximum of **6 marks** if only the analysis is attempted.
(If only the explanation is attempted, candidates are restricted to 4 marks)

Award a maximum of **8 marks** if a candidate analyses only one benefit.

Where a candidate analyses more than two benefits, award marks to the best two.

MAXIMUM FOR PART 02: 10 MARKS

STEMUP.CO.UK

03	**Extract B** (lines 29-30) states that 'the UK needs to have a strong economy to be able to respond successfully to all types of global event…'. Using the data and your economic knowledge, assess the significance to UK macroeconomic performance of major global events such as sports competitions, natural disasters and economic downturns. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> evaluation**	**17-21 marks (mid-point 19)**
Level 3	**A reasonable answer including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• macroeconomic performance • the possible nature of major global events such as sports competitions, natural disasters and economic downturns.
Developing the response to the question **Application**	• the stimulus to countries hosting major events benefiting other countries (lines 5-8) • the distinction between predictable and unpredictable evens (lines 16-19) • the importance of such events forging stronger economic ties between countries (lines 13-15) • the need for a strong economy in order to take advantage of opportunities (lines 29-30) • US financial crisis (line 19) • the Japanese earthquake and tsunami in 2011 (line 23). • use of AD/AS analysis • the multiplier • economic cycle
Developing the response to the question **Analysis**	• economic growth • stability of prices • employment/unemployment • the balance of payments on current and capital accounts • creating a strong economy in order to be able to respond to the stimuli of global events

STEMUP.CO.UK

	• the possibility of global events having a negative impact and the ability of an economy to respond • analysis of fundamental factors such as productivity, quality of resources, flexibility • references to the UK and/or other economies • use of diagrams.
Evaluation	• what we might regard as "significant" • what we decide to be the key measure(s) of "significance" • the likelihood of major global events not being good news, eg disruption to oil supplies • how we might be perceived to be economically weak by other countries because of our possible inability to play a key role as an event unfolds • is the impact of any major global event nothing more than transitory? • with so many potential "players" internationally any one country can't always expect to have a significant role to play • the short term impact of an "event" in contrast to long term sustaining of, and benefits from, trade and investment links • possible contrasting abilities to respond to positive events as opposed to negative ones or vv • a final judgement on the overall significance. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 03: 25 MARKS

STEMUP.CO.UK

2 THE EUROPEAN UNION CONTEXT **Total for this Context: 40 marks**

04	Using **Extract C**, calculate to one decimal place the % change in Turkey's GDP at current prices between 2008 and 2009 **and** identify **one other** significant feature of the data. *(5 marks)*

The calculation:

Value:

GDP @ current prices in 2008 = $730bn

GDP @ current prices in 2009 = $614bn

= % change of <u>-15.9%</u> (or -15.890411)

For the correct answer (working need not be shown) with negative sign shown **and** to at least one decimal place **or** for answers which state that 2008 was 18.9% higher than 2009.	**3 marks**
For the correct answer without the negative sign (or without stating that it is a decrease in GDP) **and** to at least one decimal place.	**2 marks**
For showing the correct method but arriving at the wrong answer.	**1 mark**

Identifying one significant feature:

For identifying a significant feature and providing one piece of supporting data with the unit ($bn or %) shown.	**3 marks (1+2)**
For identifying a significant feature but using data without the appropriate unit shown.	**2 marks**
For identifying a significant feature without supporting data.	**1 mark**
For simply providing one item of data with or without the unit shown.	**0**

The main features include:

- GDP at current prices does not show consistent growth over the period. GDP in 2008 of $730bn becomes $614bn in 2009 but begins to grow again afterwards
- inflation falls over the period as a whole from 10% in 2008 to a forecast of 6% in 2012
- inflation does not fall consistently over the period. It rises from 6% in 2009 to 9% in 2010 before being forecast to fall again in 2011/2012
- unemployment as a % of the labour force remains fairly stable over the period at 10-11% but does show a rise in 2009 to 14%
- the balance of payments on current account is in deficit throughout the period in a range from -$14bn (2009) to a forecast -$48bn (2012).

MAXIMUM FOR PART 04: 5 MARKS

STEMUP.CO.UK

05	**Extract D** (lines 14-15) states: 'Between 2002 and 2007, Turkey's annual average economic growth of 7% was far greater than that of the UK'. Explain the term 'economic growth' **and** analyse **two** possible causes of economic growth. *(10 marks)*

Explanation

Award 1 mark for each logical link in the chain of reasoning

For defining economic growth in terms of the additions to productive capacity and/or in terms of increases in real GDP; actual/underlying growth.	**Up to 2 marks per point (ensuring that any definition is not also credited as part of the analysis)**
Production possibility frontier.	**Up to 2 marks**
Output gaps.	**Up to 2 marks**
Economic growth and economic cycles.	**Up to 2 marks**
Use of relevant diagrams, eg PPF	**Up to 2 marks but not additional to the maximum 4 marks if this maximum has been awarded** **Diagram: 1 mark for labelling, 1 mark for correct information shown**

Maximum of 4 marks for the explanation

Analysis of a cause of economic growth

Award 1 mark for each logical link in the chain of reasoning

Investment **(1 mark)** is an injection into the circular flow of income **(1 mark)** and will create productive capacity **(1 mark)**. This increases the ability to create final output as measured by GDP **(1 mark)**. It is also a component of AD **(1 mark)** and so as investment rises, all other things being equal, AD will rise **(1 mark)**.	**Up to 5 marks** **Award one mark for each link in a logical chain of reasoning**
Quantity of resources available.	**Up to 5 marks**
Quality of resources.	**Up to 5 marks**
Increases in AS	**Up to 5 marks**
Increases in AD	**Up to 5 marks**
Government policy impacting on AS and/or AD.	**Up to 5 marks**
Technology/Research or Development	**Up to 5 marks**
Productivity	**Up to 5 marks**

STEMUP.CO.UK

Labour	**Up to 5 marks**
Education and Training	**Up to 5 marks**
Expanding export markets	**Up to 5 marks**
Any other valid analysis	**Up to 5 marks per issue**
Use of appropriate diagrams, eg AD/AS, MEC (note – not on specification)	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks** **These can be in addition to the analysis marks.**
Reference to the UK economy in the analysis	**1 mark per reference** **Up to a maximum of 2 marks**

A candidate can be awarded a maximum of **6 marks** if only the analysis is attempted. (If only the explanation is attempted, candidate are restricted to 4 marks only)

Award a maximum of **8 marks** if a candidate analyses only one cause.

Where a candidate analyses more than two causes, award marks to the best **two**.

MAXIMUM FOR PART 05: 10 MARKS

STEMUP.CO.UK

06	**Extract D** (lines 33-34) argues that the 'UK must not be blind to the potential problems of Turkey's possible membership of the EU and must also be in a position to grasp the opportunities which are sure to appear'. Using the data and your economic knowledge, assess the potential economic consequences for the UK if Turkey joined the EU. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis and good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• criteria for measuring economic consequences • nature of potential problems • nature of potential opportunities • the EU • the issue of enlargement of the EU.
Developing the response to the question **Application**	• Turkey's geographical position (line 3) • an expected population in Turkey of 100m by 2020 (line 10) • Turkey's vast economic potential (line 11) • Turkey's impressive growth for at least 5 years, 2002 – 2007 = 7% (lines 14 – 15), 2010 first quarter = 11% (lines 13 – 14) • Turkey's reputation for economic instability (line 20) • high inflation in some recent years in Turkey (lines 20-21) • an attractive centre for investment (line 24) • migration and the impact on UK PPF • consequences for UK AD as the EU expands • export-led multiplier.

STEMUP.CO.UK

Developing the response to the question **Analysis**	• the diverse nature of member countries of the EU • the UK approach to the EU and to enlargement in particular • demands upon the EU budget and hence upon individual members • Turkey as part of the SEM and the likely flow of cheap imports to UK • cheap migrant labour impacting on the UK labour market and social and economic infrastructure • Turkey as an additional market for the UK • investment opportunities • investment income coming back to the UK • the benefits of its established links with Asia • UK economic growth • UK unemployment • UK balance of payments • UK inflation/deflation • reference to other economies • use of diagrams.
Evaluation	• Turkish membership may be seen as the "straw which breaks the camel's back" as EU enlargement gathers pace • short term v long term considerations • the ability of the UK to take up opportunities successfully • the UK's possible inability to take up opportunities in the context of having to shoulder some of the problems which Turkey's membership may give rise to in the EU • the possibility that the UK macroeconomic indicators do not all head in the same direction (for example, Turkey as a stimulus to economic growth but migrant labour causing an unemployment problem) • the difficulty of giving "values" to pros and cons pre-membership and therefore being unable to take up a decisive stance with confidence • the impact could change over time as circumstances change • continuing enlargement, including Turkey, potentially providing ammunition to the Euro-sceptics in government and beyond causing the UK to remain by choice on the sidelines of the EU. An assessment of the significance of this issue for the UK • a final judgement on the overall impact on the UK economy. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 06: 25 MARKS

STEMUP.CO.UK

SECTION B

Essay 1 **Total for this Essay: 40 marks**

07	Explain **four** features of a recession.	*(15 marks)*

For: • defining a recession • placing a recession into the context of the economic cycle	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

For explaining four features of a recession:

Award 1 mark for each logical link in the chain of reasoning

Higher unemployment **(1 mark)** much of which will be cyclical unemployment **(1 mark)**. As incomes fall in a recession **(1 mark)** there is less spending taking place **(1 mark)** which may mean less revenue and profits for firms **(1 mark)**. This will cause firms to begin to consider redundancies **(1 mark)** and those affected may find it difficult to find new jobs so unemployment rises **(1 mark)**.	**Up to 6 marks** **Award one mark for each link in a logical chain of reasoning**
A falling rate of inflation, or deflation.	**Up to 6 marks**
Negative GDP growth.	**Up to 6 marks**
Lower investment.	**Up to 6 marks**
Deteriorating fiscal position.	**Up to 6 marks**
Looser monetary policy.	**Up to 6 marks**
Looser fiscal policy.	**Up to 6 marks**
A squeeze on profits.	**Up to 6 marks**
The impact on wages and firms' wage bills.	**Up to 6 marks**
Declining business and consumer confidence.	**Up to 6 marks**
An improvement on the current account of the balance of payments.	**Up to 6 marks**
Impact on individual markets, eg housing.	**Up to 6 marks**
Output gap	**Up to 6 marks**
Any other valid feature.	**Up to 6 marks per feature explained**
Use of diagrams to help support explanations, eg the standard AD/AS diagram.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks.**
References to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

STEMUP.CO.UK

Award a maximum of **10 marks** if four features are not considered.

If more than 4 features are considered, reward the best four.

Award a maximum of **10 marks** for an answer which ignores the need to clearly distinguish and explain four features and writes a general account of recession which includes a range of features, none which is given emphasis.

MAXIMUM FOR PART 07: 15 MARKS

STEMUP.CO.UK

08	Discuss the importance of low interest rates in bringing about a recovery from recession in an economy such as the UK.	*(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks.**

Level 5	**Good analysis and good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• the economic cycle • the nature of a recovery • interest rates and the role of the MPC • brief reference to other policy options.
Developing the response to the question **Analysis** **and** **Application**	• the relevance of interest rates to bringing about a recovery • consumer credit • investment • housing costs • aggregate demand • economic growth • unemployment • the limitations of interest rate policy • the function of other aspects of monetary policy, eg quantitative easing • the potential role of fiscal policy • the importance of a sound supply-side to underpin a recovery • the significance of business and consumer confidence • the potential significance of overseas markets • interest rate changes influencing “hot-money flows” , bringing instability which may impede a recovery but also of potential benefit • ‘hot-money flows’ and the exchange rate • aspects of an economy which may not directly benefit from low interest rates, eg structural unemployment • use of diagrams • reference to the UK and/or other economies.

STEMUP.CO.UK

Evaluation	• the extent to which interest rates are allowed to fall • over what period of time low interest rates are tolerated • the support given, if at all, by other aspects of monetary policy • the limitations if, simultaneously, a tight fiscal policy is followed by government • the limitations if business and consumer confidence are very low • low interest rates used to bring about a recovery in an internationally hostile context • business and consumer concern over how long such a policy will be maintained • microeconomic policies may show themselves to be more effective • low interest rates as a cause of inflation which may impede the recovery • a final judgement made on the policy. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 08: 25 MARKS

STEMUP.CO.UK

09	Explain **three** protectionist policies that a government could introduce to reduce a deficit on the current account of the balance of payments. *(15 marks)*

For: • defining protectionism or protectionist policies and/or deficit on the current account of the balance of payments • classical/strategic trade theory • explaining in broad terms the nature of protectionist policies and the distinctions which may be drawn between them • placing protectionism into the context of progress towards free trade • reference to the WTO.	**Up to 2 marks per definition or explanation to a maximum of 4 marks**

For explaining three possible protectionist policies:

Award 1 mark for each logical link in the chain of reasoning

Tariffs on imports **(1 mark)** may be introduced to make imports more expensive than domestic output **(1 mark)** because they are duties or taxes imposed on the price of imports **(1 mark)**. Demand for these imports may be reduced **(1 mark)** but this will depend very much on elasticity conditions **(1 mark)**. If the demand for these imports is elastic **(1 mark)**, the import bill will fall (ceteris paribus) and so help the current account **(1 mark)**.	**Up to 7 marks** **Award one mark for each link in logical chain of reasoning.**
Quotas/voluntary export restraints (VERs).	**Up to 7 marks**
Export subsidies	**Up to 7 marks**
Exchange rate policy	**Up to 7 marks**
Exchange controls/Limits on currency conversion.	**Up to 7 marks**
Non-tariff barriers to inhibit trade, eg cumbersome health and safety regulations that create costs to exporters regarded as unreasonable.	**Up to 7 marks**
Domestic government's favouritism towards home producers when awarding contracts which cannot necessarily be economically justified (public procurement policy).	**Up to 7 marks**
Any other valid argument	**Up to 7 marks per argument explained**

Use of diagrams to help support an explanation, eg the standard tariff diagram.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a total of 4 marks.**

STEMUP.CO.UK

References to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

Award a maximum of **10 marks** if three policies are **not** considered.

If more than three policies are considered, reward the best three.

MAXIMUM FOR PART 09: 15 MARKS

STEMUP.CO.UK

10	Assess the view that the progress made towards free trade has brought significant economic benefits **both** to the UK **and** to the rest of the world. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded more than **15 marks**.

Award a maximum of **21 marks** to an answer which gives a general account with no distinction being drawn between the UK and the rest of the world.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• the world economy and economic diversity within it • free trade • progress towards a free-trade world – the role of GATT and latterly the WTO • the dangers of increased protectionism • how 'benefit' might be measured.
Developing the response to the question **Application** **and** **Analysis**	• trade spearheading globalisation and the benefits this can bring • the principle of comparative advantage • specialisation • economies of scale • efficiency • the impetus to improving competitiveness in price and non-price ways • the pace of innovation • the benefits of greater choice • prospects for economic growth • trade in preference to aid to help development • employment prospects • the drive for greater competitiveness forcing down prices and hence helping to achieve low inflation • implications for the balance of payments • the impact on less successful economies of a free-trade world • use of diagrams • reference to the UK and/or other economies.

STEMUP.CO.UK

Evaluation	• a consideration of who might be the major beneficiaries • the possibility of structural unemployment as comparative advantage changes between countries • economic shocks in one part of the world are more likely to affect other parts • the difficulty of drawing conclusions which are too generalised as to be virtually meaningless • on-going protectionism even by countries involved in WTO talks such as Doha which might limit benefits • a consideration of 'significant' economic benefits • the possible problems of measuring economic benefits • how the 'losers' might be helped, if at all, and if there is a willingness to do so • if free trade is so beneficial why does an underlying protectionism persist? • benefits for some sectors of an economy, damage to others • trade blocs (free trade for members v protectionism towards non-members) • the need for WTO talks to make much more progress before benefits can be cited without significant qualification • a final judgement on the perceived benefits of progress towards free trade. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 10: 25 MARKS

STEMUP.CO.UK

11	Explain how budget deficits in an economy might help to influence the rate of inflation in that economy. *(15 marks)*

For • defining budget or budget deficit or inflation • placing the deficit into the context of budgetary positions/fiscal policy • referring to types of inflation	**Up to 2 marks per definition or explanation or explained to a maximum of 4 marks**

For explaining how budget deficits might help determine the rate of inflation in an economy

Award 1 mark for each logical link in the chain of reasoning

The influence of a budget deficit on AD **(1 mark)**. A deficit can create a multiplier effect **(1 mark)**, with government spending greater than tax revenue **(1 mark)**. As consumer incomes rise so too will spending **(1 mark)**. Firms might also be motivated by the fiscal expansion **(1 mark)**. This could generate more investment **(1 mark)**. Both higher consumer spending and investment will create pressure on prices and raise the rate of inflation **(1 mark)**.	**Up to 7 marks** **Award one mark for each link in a logical chain of reasoning**
Deficits causing interest rates to rise as UK creditors demand higher rewards. Interest rates as a potential cost to firms causing prices to rise.	**Up to 7 marks**
Real-resource 'crowding out', by making resources for private sector expansion more expensive, costs and prices may rise.	**Up to 7 marks**
The deficit spearheading expansion of public and private sector employment; a consequent fall in unemployment creates pressure on wages.	**Up to 7 marks**
The dangers to inflation of financing deficits through the printing of money.	**Up to 7 marks**
A deficit allowing extra spending on supply-side reforms which may help reduce the rate of inflation.	**Up to 7 marks**
Deficits used to expand the welfare state and encourage welfare-dependency, creating spending power not accompanied by output creation.	**Up to 7 marks**
Any other valid explanation	**Up to 7 marks per issue**
Use of diagrams, eg the Phillips Curve; AD/AS	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for the correct information shown) to a total of 4 marks**

STEMUP.CO.UK

References to the UK and/or other economies	**1 mark per reference to a maximum of 2 marks**

Where a candidate does little more than briefly list a number of possible linkages between deficits and inflation in the explanation, award a maximum of 7 marks for the answer as a whole.

MAXIMUM FOR PART 11: 15 MARKS

STEMUP.CO.UK

12	Evaluate the view that, in the long run, conflict between the major macroeconomic objectives can be avoided.	*(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded more than **15 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• macroeconomics • macroeconomic objectives • brief reference to relevant policies • the notion of 'conflict'.
Developing the response to the question **Application** **and** **Analysis**	• long run v short run • potential conflict between economic growth and stable prices • potential conflict between economic growth and a healthy balance of payments on current account • inflation beginning to impede growth • inflation damaging employment prospects • inflation and the balance of payments on current account • attempts to correct a balance of payments on current account harming employment and growth, at least in the short term • attempts to stabilise prices causing harm to employment • attempts to achieve full employment causing inflation to rise (Phillips Curve analysis) • economic growth and the environment • economic growth and income distribution • the significance of the supply side in reducing or avoiding conflict • the possible need for compromise • use of diagrams • references to the UK and/or other economies.

STEMUP.CO.UK

Evaluation	• the idea that avoidance might be utopian in a complex modern economy • the acceptability of compromise between objectives – control rather than complete avoidance • the intensity of any problems arising from conflict • the degree of persistence of conflict or a short-term phenomenon • the importance of supply-side reforms and the time taken for them to become effective in the context of conflict • a particular objective may have key importance in an economy's economic strategy in a certain period of time and will be pursued for this reason irrespective of conflict and without any attempt made at avoidance • given any set of macroeconomic policies what is the net impact of them and is this acceptable? For example, limited environmental controls in the context of needing to secure economic growth • a final judgement on the idea of conflict avoidance. *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.*

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

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 12: 25 MARKS

STEMUP.CO.UK

General Certificate of Education
Advanced Level Examination
January 2012

Economics ECON4

Unit 4 The National and International Economy

Tuesday 31 January 2012 9.00 am to 11.00 am

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Context 1 **OR** Context 2.
- In **Section B**, answer **one** essay.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

STEMUP.CO.UK

Section A

Answer **EITHER** Context 1 **OR** Context 2.

EITHER **Total for this Context: 40 marks**

Context 1

THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Context 1 which follow.

Extract A: India: balance of payments on current account, quarterly (Q), 2009 ($bn)

	Q1	Q2	Q3	Q4
Exports of goods	38.5	57.5	53.6	39.4
Imports of goods	58.7	82.7	92.8	73.5
Invisible balance *	+19.0	+22.0	+26.5	+22.4
Balance of payments on current account	**?**			

* Invisibles comprise trade in services, investment income and transfers

Source: official statistics, accessed on 9 August 2010

Extract B: A passage to India

In July 2010, the UK Prime Minister led a Government delegation to India. The hope was that India's economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports.

India's growth in 2010 is expected to be about 9%. Its GDP per capita is $3100, although over 400 million Indians live below the international poverty line of $1.25 per day. It has a labour force of almost 500 million but an official rate of unemployment of 11%. Quarterly sector growth is impressive: 1.8% in services, 2.2% in manufacturing and 1.7% in agriculture between January and March 2010.

For the Indian Government, inflation and economic growth are top of the agenda. Unfortunately, there is often a trade-off between these two macroeconomic indicators. Inflation jumped from 1.3% in October 2009 to almost 5% in November 2009. However, food inflation was 19%. As in other countries, rising oil costs are also amongst the causes of inflation for the Indian economy.

STEMUP.CO.UK

The UK Government still hopes to promote increased UK economic involvement in India. Certainly Indian business has become more involved in the UK. *Tata*, one of India's oldest companies, is now the UK's leading manufacturer through its ownership of *Corus Steel* and *Jaguar Land Rover*. India is now more likely to be creating jobs in the UK through direct investment rather than 'stealing' them, for example through call-centre activity relocated from the UK. UK business needs to rise to the challenges and opportunities presented in India. Companies such as *Vodafone* (telecommunications) and *BAE Systems* (defence and aerospace) are amongst the recent success stories and it is widely believed that India's increased demand for world-class services, for example financial and legal, can be met by the UK.

Infrastructure investment is urgent. Each year, about 40% of India's agricultural produce rots before arriving at market because of inadequate storage facilities and poor road and rail links. The Indian Government's plans to spend $500bn between 2010 and 2013 on new ports, roads, rail links and airports will help to improve the situation. This investment is an export opportunity for UK firms specialising in infrastructure projects. The growth of the Indian economy will also help UK service exporters such as banking, education and health-care businesses. Currently, India accounts for only 1% of UK exports.

However, India remains fiercely protective, and investment and trade flows from the UK could remain limited. Progress will depend on whether a long-awaited EU-India trade deal becomes a reality and on the outcome of the *World Trade Organization*'s global trade talks. Many argue that India can only benefit from increased international trade.

The UK Government said at the time of the Prime Minister's July 2010 visit to India that the UK had a vital stake in India's rise to becoming a global power and in its future prosperity. At the same time, a view was also expressed that the UK needs India much more than India needs the UK. It is hoped that all aspects of the UK's macroeconomy can eventually benefit as India develops further.

Source: news reports, 2010

0 1 Using **Extract A**, calculate India's balance of payments on current account for the first quarter (Q1) of 2009 **and** identify **one** significant feature of the data for India's balance of payments on current account for 2009. *(5 marks)*

0 2 **Extract B** (line 10) suggests that 'there is often a trade-off' between inflation and economic growth.

Explain why there might be a trade-off between inflation and economic growth **and** analyse **one** cause of inflation. *(10 marks)*

0 3 **Extract B** (lines 2–3) states that 'India's economic success could help to bring some relief to the UK economy and speed the recovery process through increased exports'.

Using the data and your economic knowledge, assess the importance to the UK economy of continued economic growth in India. *(25 marks)*

Turn over ▶

STEMUP.CO.UK

Do **not** answer Context 2 if you have answered Context 1.

OR **Total for this Context: 40 marks**

Context 2

THE EUROPEAN UNION CONTEXT

Study **Extracts C and D**, and then answer **all** parts of Context 2 which follow.

Extract C: Greece: GDP (€bn) 2006, and the annual % change in the components of GDP, 2007 – 2009 *

Components of GDP	GDP (€bn)	Annual % change in the components of GDP		
	2006	2007	2008	2009
Household consumption	153	3.0	2.0	–2.0
Investment	45	5.0	–7.0	–14.0
Government consumption	34	8.0	1.0	10.0
Exports of goods and services	48	6.0	4.0	–18.0
Imports of goods and services	70	7.0	0.0	–14.0
GDP (aggregate demand)	**?**	5.0	2.0	–2.0

* Figures rounded to nearest whole number

Source: official statistics, accessed on 9 August 2010

Extract D: The fiscal remedy for recession

The recession of 2009 brought renewed interest amongst EU governments in a so-called Keynesian approach to spending their way out of recession. They were desperate to avoid a prolonged period of negative growth and the accompanying mass unemployment.

In the UK, as well as within the eurozone, fiscal rules were abandoned as the fight for economic recovery began. The Stability and Growth Pact of the eurozone, to which the UK had also adhered in an informal way before the recession, limited budget deficits to 3% of GDP and a nation's debt to 60% of GDP. Such constraints were often far exceeded and increasing concerns were being expressed. In May 2010, the new UK Government became a prominent voice within Europe for a reversal of fiscal policy, with public spending cuts and tax increases.

The UK Government's policy was given some support by the economic crisis unfolding in Greece, a member of the eurozone. The Greek Government needed to be 'bailed out' by fellow member states if it was not to default on its debts. It had a budget deficit of 14% of GDP and a national debt of 115% of GDP in 2009, a year when its GDP also fell by 2%.

STEMUP.CO.UK

There was concern in the EU that such a situation had been allowed to develop, with increasing calls for EU-wide controls. France and Germany were pressing for an EU institution such as the European Commission to provide such a role, with the power to impose an EU-wide fiscal policy on all member states and not just the eurozone.

The UK Government opposed any such powers over member countries. However, it had gone as far as to establish an Office for Budget Responsibility (OBR), intended to keep the Government's tax and spending plans under control by providing a reality check on the state of the nation's finances. The OBR, however, does not have the powers that some were envisaging for the EU.

In a climate of greater stability in 2010, some still believed that an EU-wide fiscal policy needed to be a key part of the evolution towards a federal state. It cannot be denied that the best way forward must be that which delivers macroeconomic stability across the EU. Whether this comes about through member governments each developing a policy of fiscal responsibility or through a fiscal policy imposed by the EU on all member states remains open to debate.

Source: various sources, 2010

0 4 Using **Extract C**, calculate the value of GDP for Greece in 2006 **and** identify **one** significant feature of the data for the annual percentage change in the components of GDP for the period 2007 to 2009. *(5 marks)*

0 5 **Extract D** (lines 1–2) refers to EU governments 'spending their way out of recession'.

Explain the term 'spending their way out of recession' **and** analyse **two** reasons for government spending **other** than to influence the economic cycle. *(10 marks)*

0 6 **Extract D** (lines 16–18) suggests that France and Germany would like the EU to have 'the power to impose an EU-wide fiscal policy on all member states and not just the eurozone'.

Using the data and your economic knowledge, assess the possible economic consequences for the UK economy of an EU-wide fiscal policy requiring all member states to balance their budgets. *(25 marks)*

Turn over for the next question

STEMUP.CO.UK

Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER

Essay 1

UK exports of goods which, in 2002, were valued at £187 billion, had risen to £228 billion in 2009. The deficit on the UK balance of trade in goods rose from £48 billion in 2002 to £82 billion in 2009.

0 7 Explain **three** possible reasons for growth in the value of an economy's exports of goods. *(15 marks)*

0 8 Evaluate the view that an increasing deficit in UK trade in goods is a major problem for the UK economy. *(25 marks)*

OR

Essay 2

Sustained economic growth can often benefit a country's living standards through higher income per head. In the UK from 2001 to 2007, the annual average growth in real income per head was +3%. For 2008 and 2009, it was –3%.

0 9 Explain how supply-side factors might help to achieve sustained economic growth. *(15 marks)*

1 0 Discuss the view that the main reason for a country wanting to achieve sustained economic growth is to bring about an increase in private sector consumption. *(25 marks)*

OR

Essay 3

The global economic slowdown in recent years saw UK unemployment, as measured by the claimant count, rise from 870 000 in 2004 to 1.5 million in 2009.

1 1 As unemployment rises, explain **two** possible economic problems which might affect individuals in the UK **and two** possible economic problems which might affect the UK economy as a whole. *(15 marks)*

1 2 To what extent would a significant fall in the exchange rate of the pound sterling achieve a sustained reduction in unemployment in the UK? *(25 marks)*

END OF QUESTIONS

STEMUP.CO.UK

There are no questions printed on this page

There are no questions printed on this page

Copyright © 2012 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1



General Certificate of Education (A-level)
January 2012

Economics ECON4

(Specification 2140)

Unit 4: The National and International Economy

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available from: aqa.org.uk

Copyright © 2012 AQA and its licensors. All rights reserved.

Copyright
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX.

Advanced Level Economics Unit 4

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

(i) **An issue-based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

(ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

STEMUP.CO.UK

AQA ADVANCED LEVEL (A2) ECONOMICS

LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY

A2 **LEVELS OF RESPONSE**	**AO1** **KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology**	**AO2** **APPLICATION of theories, concepts and terminology**	**AO3** **ANALYSIS of economic problems and issues**	**AO4** **EVALUATION of economic arguments and evidence, making informed judgments**
Level 5 22-25 marks (mid-point 24) **Good analysis and good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

An Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

STEMUP.CO.UK

1 THE GLOBAL CONTEXT — Total for this Context: 40 marks

01	Using **Extract A**, calculate India's balance of payments on current account for the first quarter (Q1)of 2009 **and** identify **one** significant feature of the data for India's balance of payments on current account for 2009. *(5 marks)*

The calculation:

Value: **- $1.2 billion (or bn)**

For the correct answer **with** the unit shown. (Workings need not be shown).	**3 marks**
For the correct answer **without** the unit shown. (Workings need not be shown).	**2 marks**
For showing the correct method but arriving at the wrong answer.	**1 mark**

Identifying one significant feature:

For identifying a significant feature and providing one piece of supporting data with the unit ($bn) shown.	**3 marks (1 + 2)**
For identifying a significant feature but using data without the unit shown.	**2 mark (1 + 1)**
For identifying a significant feature without supporting data.	**1 mark**
For simply providing one item of data with or without the unit shown.	**0 marks**

The significant features include:

- visible trade is always in deficit, eg first quarter $ - 20.2bn
- invisible trade is always in surplus, eg fourth quarter $ + 22.4bn
- visible exports rise in value for first half of 2009 and then decline, eg $57.5bn in 2nd qtr to $39.4bn in 4th qtr
- visible imports rise in value for quarters 1 – 3 and then decline, eg 3rd qtr $92.8bn, $73.5bn in 4th qtr
- net invisible trade rises for quarters 1 – 3 and then declines, eg 3rd qtr + $26.5bn, 4th qtr +$22.4bn
- range of values: visible exports $19bn, visible imports $34.1bn, net invisibles $7.5bn (only one reference required from data for award of 2 marks)
- all three are higher at end of year than start, eg visible exports rise from $38.5bn to $39.4bn, visible imports $58.7bn to $19bn to $73.5bn, invisible balance from $19bn to $22.4bn.

MAXIMUM FOR PART 01 : 5 MARKS

STEMUP.CO.UK

02	**Extract B** (line 10) suggests that 'there is often a trade-off' between inflation and economic growth. Explain why there might be a trade-off between inflation and economic growth **and** analyse **one** cause of inflation. *(10 marks)*

For defining the concept of trade-off, inflation, demand-pull inflation, cost-push inflation, economic growth, or any other relevant definition.	**Up to 2 marks per definition to a maximum of 2 marks but ensure definitions are not also credited below.**

Explanation. **Award one mark for each step in a logical chain of reasoning. For example:**	
How rising aggregate demand as a result of the growth process might put pressure on prices, leading to demand-pull inflation, and hence cause action to be taken to reduce AD.	**Up to 4 marks**
How economic growth might increase pressure of demand on resources, cause producer costs to rise, causing in turn price increases and hence cost-push inflation. Action might then be taken to limit growth in order to reduce pressure of demand on resources.	
For use of relevant diagrams, eg AD/AS, Phillips Curve.	**Up to 2 marks but not additional to 4 marks if this maximum is awarded for the written part of the answer.** **(1 mark for labelling, 1 mark for the correct information shown)**

Maximum of 4 marks for the explanation

Analysis of causes of inflation. **Award one mark for each step in a logical chain of reasoning. For example:**	
Loose monetary policy **(1 mark)** such as lower interest rates **(1 mark)** and increased money supply **(1 mark)** causing AD to rise **(1 mark)** because of, for example, cheaper consumer credit **(1 mark),** causing prices to rise if AS cannot respond **(1 mark)**.	**Up to 6 marks**
Loose fiscal policy such as lower taxation.	**Up to 6 marks**
Supply-side shocks such as rising oil prices.	**Up to 6 marks**
Other cost pressures such as rising wage costs.	**Up to 6 marks**
Rising expectations of future price rises.	**Up to 6 marks**
Analysis in terms of demand-pull factors generally.	**Up to 6 marks**
Analysis in terms of cost-push factors generally.	**Up to 6 marks**
Any other valid analysis.	**Up to 6 marks per issue**

STEMUP.CO.UK

Make use of appropriate diagrams in the analysis, eg AD/AS, Phillips Curve	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for the correct information shown) to a maximum of 3 marks.**

A candidate can be awarded a maximum of **6 marks** if only the explanation or the analysis is attempted.

MAXIMUM FOR PART 02: 10 MARKS

STEMUP.CO.UK

03	**Extract B** (lines 2-3) states that 'India's economic success would help to bring some relief to the UK economy and speed the recovery process through increased exports'. Using the data and your economic knowledge, assess the importance to the UK economy of continued economic growth in India. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• economic growth • other macroeconomic performance indicators • the contrasting economies of India and the UK.
Application	• Line 3: reference to increased exports • Lines 6-8: impressive quarterly growth which, if maintained, could create spin-offs for the UK • Line 18-19: GDP, multiplier, accelerator • Line 19: inward investment from India • Lines 24 – 28: benefits for the UK from India's infra-structure development Line 31: the limitations for the UK if India remains 'fiercely protective'.

STEMUP.CO.UK

Developing the response to the question **Analysis**	• how it is expected that India might develop in the future • the current importance of India to the UK and how this might change in the future • the potential impact on UK economic growth • the potential impact on the UK balance of payments both on current and capital accounts • the potential impact on employment/unemployment • UK structural change influenced by economies such as India • the impetus that stronger links with India may give to supply-side reforms • the impact on productivity and competitiveness • the impact on investment flows • use of diagrams • reference to other economies.
Evaluation	• India needs to be put into the context of other significant fast-developing nations which may all eventually play a part in UK macroeconomic performance • India needs to be put into the context of our currently important trading partners – the US and the EU • India may decide to remain protectionist in terms of certain types of investment and trade • how more effective, if at all, some of our competitors are in penetrating the Indian economy • the net trade flow • the net investment flow • whether the UK produces what India's development requires, and, if not, whether the UK is able and willing to carry out the required structural change • how supportive the UK government is of private sector efforts in penetrating the Indian economy • whether or not India's growth and development continues in the current global economic climate • a final judgement on the overall likely importance of India to the UK economy. *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.*

SEE THE LEVELS MARK SCHEME ON PAGES 4 & 5
FOR FURTHER CLARIFICATION

MAXIMUM FOR PART 03: 25 MARKS

STEMUP.CO.UK

2 THE EUROPEAN UNION CONTEXT **Total for this Context: 40 marks**

04 Using **Extract C**, calculate the value of GDP for Greece in 2006 **and** identify **one** significant feature of the data for the annual percentage change in the components of GDP for the period 2007 to 2009. *(5 marks)*

The calculation:

GDP for 2006: **€210bn**

For the correct answer with the unit shown. (Workings need not be shown).	**3 marks**
For the correct answer without the unit shown. (Workings need not be shown).	**2 marks**
For showing the correct method but arriving at the wrong answer.	**1 mark**

Identifying one significant feature:

For identifying a significant feature and providing one piece of supporting data with the unit (%) shown.	**3 marks** **(1 + 2)**
For identifying a significant feature but using data without the unit shown.	**2 marks** **(1 + 1)**
For identifying a significant feature without supporting data.	**1 mark**
For simply providing one item of data with or without the unit shown.	**0 marks**

Significant features of the data for 2007 to 2009 include:

- all components show negative growth in 2009 except government consumption, eg household consumption -2.0%, government consumption +10.0%
- only investment has negative growth in 2008 (-7.0%)
- all percentage changes are positive in 2007, eg government consumption +8.0%
- all components show a declining rate of growth when comparing 2007 and 2009 except government consumption which rises from 8% in 2007 to 10.0% in 2009
- exports have the biggest range of values, +6% to -18.0%
- household consumption has the smallest range of values, +3.0% in 2007 to -2.0% in 2009.

MAXIMUM FOR PART 04: 5 MARKS

STEMUP.CO.UK

05	**Extract D** (lines 1-2) refers to EU governments 'spending their way out of recession'. Explain the term 'spending their way out of recession' **and** analyse **two** reasons for government spending **other** than to influence the economic cycle. *(10 marks)*

For defining spending, fiscal policy, recession, or any other relevant definition.	**Up to 2 marks per definition to a maximum of 2 marks but ensure definitions are not also credited below**

Explanation **Award one mark for each step in a logical chain of reasoning. For example:**	
How government spending might help raise AD, especially if compensating for lower private sector spending, perhaps with reference to the multiplier process.	**Up to 4 marks**
The potentially most effective types of spending for this purpose.	
For use of relevant diagrams, e.g. AD/AS, economic cycle, output gap (s).	**Up to 2 marks but not additional to 4 marks if this maximum is awarded for the written part of the answer.** **(1 mark for labelling, 1 mark for the correct information shown)**

Maximum of 4 marks for the explanation

The analysis of two reasons for government spending. **Award one mark for each step in a logical chain of reasoning. For example:**	
Spending may be used to influence the distribution of income **(1 mark)** so helping to alleviate poverty **(1 mark)** perhaps through the provision of welfare benefits **(1 mark)** such as Job Seeker's Allowance **(1 mark)** or through job-creation schemes **(1 mark)** or through spending in regions particularly hard-hit by long-term unemployment **(1 mark)**.	**Up to 6 marks**
Provision of public goods.	**Up to 6 marks**
Provision of merit goods.	**Up to 6 marks**
Introduction/development of supply-side reforms.	**Up to 6 marks**
Any other valid analysis	**Up to 6 marks per issue**

STEMUP.CO.UK

Make use of appropriate diagrams in the analysis, eg AD/AS, MPC/MPC – MPB/MSB.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for the correct information shown) to a maximum of 3 marks.**

A candidate can be awarded a maximum of **6 marks** if only the explanation or the analysis is attempted and a maximum of **8 marks** if only one reason for government spending is analysed. If more than two reasons are analysed, reward the best two.

MAXIMUM FOR PART 05: 10 MARKS

STEMUP.CO.UK

06 **Extract D** (lines16-18) suggests that France and Germany would like the EU to have 'the power to impose an EU-wide fiscal policy on all member states and not just the eurozone'.

Using the data and your economic knowledge, assess the possible economic consequences for the UK economy of an EU-wide fiscal policy requiring all member states to balance their budgets. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• the nature of the EU perhaps with reference to institutions • the UK position within the EU • fiscal policy and budgetary positions • criteria for assessing consequences.
Application	• Lines 1-3: the remedial Keynesian approach now denied to member states • Line 4: the abandonment of fiscal rules • Lines 11-14: the crisis in Greece arising from fiscal looseness • Lines 19-23: the UK Government seeming to be a step ahead of some in the EU especially with the setting up of the OBR. • Keynesian multiplier • Budgetary positions • Current account deficits.

STEMUP.CO.UK

Developing the response to the question **Analysis**	• the general economic consequences any individual economy might expect in trying to achieve a balanced budget • the consequences for the EU as a whole of achieving that position • the idea of 27 nations being required to follow the same policy • the reasons for the policy • the impact on economic growth • the impact on living standards in the short term and long term • the impact on employment/unemployment • the impact on the UK's balance of payments on current account • the impact on inflation • the possibility of deflation • the impact on types and levels of government spending • the changes in taxation and the possible impact of the changes • use of relevant diagrams • reference to other economies.
Evaluation	• whether or not the policy is introduced for economic reasons or to reflect a particular political philosophy may influence judgement on the policy • the time given for any one country to achieve a balance • the UK's original fiscal position at the time the policy is introduced • for how long a country will be expected to continue with the policy • whether or not the policy will be effectively enforced • whether the UK pursues the policy mainly through tax increases or public spending cuts or a combination of both • whether it will be short-term 'pain' for long-term benefit • the differing impact on particular sections of the UK population • whether additional private sector activity will compensate • whether monetary policy has the same constraints imposed • the problems which 'one-size-fits-all' policy tends to generate for individual nations • a final judgement on the overall impact on the UK economy. *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.*

**SEE THE LEVELS MARK SCHEME ON PAGES 4 & 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 06: 25 MARKS

STEMUP.CO.UK

SECTION B

Essay 1 **Total for this Essay: 40 marks**

07	Explain **three** possible reasons for growth in the value of an economy's exports of goods. *(15 marks)*

For • defining exports or export of goods • value v volume • placing exports into the context of trade in goods and services • placing exports into the context of the balance of payments on current account.	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explaining three possible reasons for growth in the export of goods. **Award one mark for each step in a logical chain of reasoning. For example:**	
Comparative advantage is established or strengthened (**1 mark**) where an economy can produce a good at a lower opportunity cost than another country (**1 mark**) and therefore has a greater likelihood of improved competitiveness and more efficient use of resources (**1 mark**), so that sales should rise in foreign markets (**1 mark**). In the UK the financial services sector has developed this advantage (**1 mark**). An illustrative numerical example of comparative advantage (**4 marks**).	**Up to 7 marks**
Rising incomes overseas.	**Up to 7 marks**
Improved productivity in the exporting economy.	**Up to 7 marks**
A lower rate of inflation compared to trading partners or perhaps deflation in contrast to competitors' inflation.	**Up to 7 marks**
Government support for the export sector.	**Up to 7 marks**
Exchange rate depreciation.	**Up to 7 marks**
Changes in export prices.	**Up to 7 marks**
Any other valid cause.	**Up to 7 marks per reason explained**
Use of diagrams to help support explanations, eg comparative advantage, exchange rates.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a total of 4 marks**

Reward references to the UK economy. **1 mark per reference up to a maximum of 2 marks**

Award a maximum of 12 marks if 3 reasons are not considered.

If more than 3 reasons are considered, reward the best 3.

MAXIMUM FOR PART 07: 15 MARKS

STEMUP.CO.UK

08	Evaluate the view that an increasing deficit in UK trade in goods is a major problem for the UK economy.	*(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks.**

To achieve **Level 4,** at least **two** issues should be presented and evaluated.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Introduction	• the trade in goods • the balance of payments on current account – deficits and surpluses • criteria for assessing the impact of a deficit • the potential nature of the problem in the context of the UK economy.
Developing the response to the question **Analysis** **and** **Application**	• the possible determinants of a successful export performance • possible determinants of imports • whether competitiveness in world markets is an underlying issue and is the real cause for concern • Whether global macroeconomic conditions provide part of the answer and whether they will be a temporary phenomenon • whether deficits arise from a loss of comparative advantage • the part played by the exchange rate at any one time and whether this is a temporary difficulty • whether non-price factors must be seen as a cause for concern • deindustrialisation as part of the explanation over the long term • the impact of deficits on other macroeconomic indicators – growth and employment • the compensatory role of invisibles • the compensatory role of capital flows • the possibility that a deficit might be a reflection of rising living standards in a country • use of diagrams • reference to the UK and/or other economies

STEMUP.CO.UK

Evaluation	• how persistent the deficit is • how large the deficit is, for example, in relation to GDP • whether it has an impact on the exchange rate and the consequences of this • the ability to borrow, if necessary, to finance the deficit • whether, in reality, it has had any lasting adverse impact on growth or jobs • whether the attempts to reduce it cause more problems, e.g. deflation of AD • whether the deficit brings higher living standards, if only in the short term • is the deficit indicative of a country 'living beyond its means'? • it may lead to calls for increased protectionism which may cause long term problems • the need to distinguish actions to control the deficit from actions to bring about a long term solution • international opinion of the deficit • whether it brings intervention by the IMF • a final judgement. *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.*

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 08: 25 MARKS

STEMUP.CO.UK

09	Explain how supply-side factors might help to achieve sustained economic growth. *(15 marks)*

For • defining supply side or supply-side factors • government policy or business initiatives • defining economic growth or sustained economic growth • explaining the connection between supply-side factors and sustained economic growth, ie supply-side generated growth is less likely to bring conflict with other objectives.	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explaining how supply-side factors help to achieve sustained economic growth. Award one mark for each step in a logical chain of reasoning. For example:	
Supply-side factors will have an impact on both the long- and short-run aggregate supply curves of an economy **(1 mark)** shifting them to the right **(1 mark)**, indicating that the productive potential of the economy has increased **(1 mark)**. The production possibility frontier will also shift to the right **(1 mark)**, indicating that the economy has gained more resources **(1 mark)** or is using existing resources more efficiently **(1 mark)**. The trend rate of growth should therefore show an improvement **(1 mark)**.	**Up to 7 marks**
The impact of investment.	**Up to 7 marks**
The impact of productivity.	**Up to 7 marks**
Education and Training.	**Up to 7 marks**
Welfare Reform.	**Up to 7 marks**
Occupational and geographical mobility.	**Up to 7 marks**
Any other valid point.	**Up to 7 marks per factor explained**
Use of diagrams to help support explanations, eg AD/AS, PPF	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a total of 4 marks**

Reward references to the UK economy **1 mark per reference up to a maximum of 2 marks**

Where a candidate does little more than list a number of supply-side factors in the explanation, award a maximum of 7 marks for the answer as a whole.

MAXIMUM FOR PART 09: 15 MARKS

STEMUP.CO.UK

10	Discuss the view that the main reason for a country wanting to achieve sustained economic growth is to bring about an increase in private sector consumption. *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Level 5	**Good analysis and good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 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 **Analysis** **and** **Application**	• 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.

STEMUP.CO.UK

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. *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.*

**SEE THE LEVELS MARK SCHEME ON PAGES 4 & 5
FOR FURTHER CLARIFICATION**

MAXIMUM FOR PART 10: 25 MARKS

STEMUP.CO.UK

11	As unemployment rises, explain **two** possible economic problems which might affect individuals in the UK **and two** possible economic problems which might affect the UK economy as a whole. *(15 marks)*

For • defining unemployment • making reference to official measures of unemployment • explaining types of unemployment	**Up to 2 marks per point defined or explained to a maximum of 4 marks**

For explaining the impact of rising unemployment on the economy. **Award one mark for each step in a logical chain of reasoning. For example:**	
The impact on AD (**1 mark**) as average incomes fall reducing household spending power (**1 mark**) and a consequent fall in confidence discouraging business investment (**1 mark**). In contrast, AD will be influenced if businesses may make greater efforts to secure export markets (**1 mark**), while government spending may increase to help the unemployed (**1 mark**).	**Up to 5 marks**
Changes in government spending and taxation and the economic impact of these.	**Up to 5 marks**
Impact on government finances as spending increases but tax revenues fall.	**Up to 5 marks**
Overall impact on economic growth.	**Up to 5 marks**
The problem of rising inequality.	**Up to 5 marks**
The waste of resources so that the economy operates at less than full capacity.	**Up to 5 marks**
Any other valid point.	**Up to 5 marks per effect explained**

For explaining the impact of higher unemployment on individuals. **Award one mark for each step in a logical chain of reasoning. For example:**	
The effect on living standards generally **(1 mark)** as consumption of goods and services, such as food and alcohol, is curtailed **(1 mark)**. The quality of life is affected as spending limits are placed on, for example, heating and holidays **(1 mark)**. The type of housing may need to be reconsidered **(1 mark)** as a mortgage or existing rent become unaffordable **(1 mark)**.	**Up to 5 marks**
The level of income in particular and the impact on living standards.	**Up to 5 marks**
The reluctance to claim, but the necessity of claiming, welfare benefits – perhaps further demoralising the individual.	**Up to 5 marks**

STEMUP.CO.UK

Lower morale, perhaps resulting from unsuccessful job search impacting on worker performance.	**Up to 5 marks**
The dangers of long-term unemployment.	**Up to 5 marks**
The need for geographical and/or occupational mobility (with implications for re-training).	**Up to 5 marks**
Long-term financial implications in terms of savings and pensions.	**Up to 5 marks**
Any other valid point.	**Up to 5 marks per effect explained**

Use of diagrams to help support explanations, eg AD/AS, PPF.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a total of 4 marks**

Reward references to the UK economy **1 mark per reference up to a maximum of 2 marks**

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.

MAXIMUM FOR PART 11: 15 MARKS

12	To what extent would a significant fall in the exchange rate of the pound sterling achieve a sustained reduction in unemployment in the UK? *(25 marks)*

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks.**

Level 5	**Good analysis and good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

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

STEMUP.CO.UK

	• 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. *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.*

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 10: 25 MARKS

STEMUP.CO.UK

General Certificate of Education
Advanced Level Examination
January 2011

Economics ECON4

Unit 4 The National and International Economy

Tuesday 1 February 2011 1.30 pm to 3.30 pm

For this paper you must have:
- an AQA 12-page answer book.

You may use a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

STEMUP.CO.UK

Section A

Answer **EITHER** Question 1 **OR** Question 2.

EITHER **Total for this question: 40 marks**

Question 1

THE GLOBAL CONTEXT

Study **Extracts A and B**, and then answer **all** parts of Question 1 which follow.

Extract A: China's macroeconomic performance

	2006	2007	2008	2009 (forecast)	2010 (forecast)
Real GDP growth (%)	11.6	13.0	9.0	7.7	9.3
Inflation rate (%)	3.3	7.4	7.2	2.0	0.5
Fiscal balance (% of GDP)	1.6	3.5	4.2	-3.0	-2.7
Current account balance (% of GDP)	9.4	11.1	9.9	9.6	7.8

Source: official statistics, accessed on 29 July 2009

Extract B: China: a bright spot in a gloomy world

China, despite its recent rapid growth, has not remained immune to the economic downturn as some economists had hoped. However, it remains an economy which is looking to the future with some optimism. It continues to invest in the production of raw materials and resources in other countries. The consequent increased global investment should give a much-needed boost to jobs and growth in countries benefiting from it. Despite this investment, growth in demand from China is likely to continue to push up world raw material prices in the long term.

Certainly, China has shown an increased recognition of the need to play its part in bringing about global recovery. For example, in a recent international agreement to boost the funds of the International Monetary Fund (IMF) by $500 billion, China has agreed to contribute $40 billion, compared to the UK's $15 billion. The IMF can now fulfil its promise of loans to such countries as Poland and Mexico, which should contribute to the greater global stability needed for recovery.

Nevertheless, China, fearing inflation, has expressed its concern about the policy of some leading central banks, including the Bank of England, of quantitative easing (increasing the money supply) in order to bring about economic revival by increasing aggregate demand. China also knows that its policy of holding down the external value of its currency in

STEMUP.CO.UK

order to boost export-led growth is only likely to be successful if a global revival of demand is achieved. For example, China saw a 25% decline in exports in 2008. The depressed UK market will have contributed to this decline.

The other major world economies are keen to keep talking with China and win its approval for a host of measures to bring about recovery. They want to engage China in more long-term talks as well. These will include international financial reforms and environmental policies, especially as China's industrial growth continues to create negative externalities.

China has every reason to be optimistic about its future prospects. In June 2009, the *Organisation for Economic Co-operation and Development* (OECD) forecast growth for that year of 7.7% and 9.3% for 2010. To a country used to double-digit growth figures, this may seem like a recession. However, such figures are a far cry from the negative growth seen in many parts of the global economy, including the UK economy.

Nevertheless, the ongoing concern of the Chinese Government is reflected in the decision to give a $565 billion fiscal stimulus to its economy in 2009. It is also considering protectionist policies, which may impact on those countries hoping to increase exports to China. For the World Bank, however, the Chinese economy remains a 'relative bright spot in an otherwise gloomy global economy' and countries such as the UK are keen to see China help pull the global economy out of recession.

China has reacted coolly to suggestions that a solution to the world's economic problems lies in the hands of two powers: itself and the US. Although the UK has played a leading role in international discussions on recovery, such an assertion may yet prove to have a ring of truth. What is certain is that co-operation is vital in ensuring that appropriate policies are followed to bring about a new era of sustained growth.

Source: various sources, 2009

Question 1

0 1 Using **Extract A**, identify **two** main features of China's macroeconomic performance for the period 2006 to 2010. *(5 marks)*

0 2 **Extract B** (lines 4-5) refers to global investment undertaken by China.

Explain the term 'global investment' **and** analyse **two** economic consequences for an economy receiving such investment. *(10 marks)*

0 3 In 2009, the World Bank described the Chinese economy as a "relative bright spot in an otherwise gloomy global economy" (**Extract B,** lines 34-35).

Using the data and your economic knowledge, assess the consequences for the UK economy of China's continued economic growth during a global recession. *(25 marks)*

Turn over ▶

STEMUP.CO.UK

Do **not** answer Question 2 if you have answered Question 1.

OR **Total for this question: 40 marks**

Question 2

THE EUROPEAN UNION CONTEXT

Study **Extracts C and D**, and then answer **all** parts of Question 2 which follow.

Extract C: EU unemployment (%)

	March 2008	October 2008	March 2009
EU	6.7	7.3	8.3
UK	5.2	6.1	7.2
France	7.6	8.0	8.8
Latvia	6.1	9.3	16.1
Lithuania	4.3	7.2	15.5

Source: official statistics

Extract D: Is European Union (EU) unity threatened?

In March 2009, the Hungarian Government asked Germany for €190 billion to prevent what it saw as a new economic 'Iron Curtain' from going up across Europe. The term 'Iron Curtain' was intended to remind Europeans of the Soviet-era divide between the poorer Communist East and the more prosperous, free, democratic West. Hungary argued that, without such help, the contrast between the richer and poorer members of the EU would only widen further. Germany's refusal of Hungary's request symbolised, for many, the deepening divide between the EU's richer and poorer members.

The contrast in fortunes is seen by newer members of the EU, such as Latvia, Lithuania and Hungary, as one which can only worsen during the recession and which may threaten the EU's existence in the long term. On the other hand, some people in the more-established members of the EU, such as the UK and France, have become increasingly disillusioned with the EU and especially with the level of assistance now expected from these more-established members by the newer members.

At the Brussels Summit of March 2009, the Czech Prime Minister warned of 'the greatest crisis in the history of European integration'. Gordon Brown, for the UK, spoke of the need for unity and common policies. The Single European Market, for example, is seen as an evolving policy which can foster prosperity for all and bring closer integration.

Cyclical unemployment is now widespread, however, and has been growing faster in the Eastern members of the EU than in those of the West. This could increase tensions between Eastern and Western members of the EU. The impact of cyclical unemployment

STEMUP.CO.UK

on both individuals and whole economies can be serious, as incomes and output fall and welfare-dependency becomes more widespread.

Nevertheless, it would be wrong to argue that the wealthier members of the EU have been totally immune to the problem. The Netherlands, the worst affected Western member, experienced a 34% rise in unemployment between January 2008 and March 2009. There was a much greater rise in Latvia and Lithuania, both in the East.

During a recession, questions are likely to be asked about the future of the EU as policy disagreements emerge. Supporters claim that the EU is a force for good and needs to be strengthened, rather than weakened or abandoned. In this way, it is argued, East-West tensions can be kept at bay.

Such supporters feel that an enlarged EU, with open markets based on the Single European Market policy, helps spread benefits of membership across the whole organisation and offers the best chance of rapid recovery. In the UK, however, many see openness as a threat to jobs and to living standards.

In the current climate, it has also been argued that a more ambitious set of common macroeconomic policies would help speed recovery in the EU. Fiscal and supply-side policies come into this category, as well as monetary policy, even though only 16 members of the 27-member EU have adopted the euro. Even so, limited agreement on monetary policy, such as interest rates, could be of benefit.

The UK has not had the leading role in EU recovery policies that it has had globally, but it has shown a willingness to play its part in fostering unity and economic revival so that Europe can make a vital contribution to international recovery. Talk of disunity and the break-up of the EU can only cause instability and hinder economic recovery. This is something that members can ill-afford, particularly the UK. Growth, jobs and stable prices are desperately needed.

Source: various sources

Question 2

0 4 Using **Extract C**, identify **two** main features of unemployment for the period March 2008 to March 2009. *(5 marks)*

0 5 **Extract D** (lines 18-20) suggests that cyclical unemployment 'is now widespread' and that this 'could increase tensions between Eastern and Western members of the EU'.

Explain the term 'cyclical unemployment' **and** analyse **two** effects of cyclical unemployment. *(10 marks)*

0 6 **Extract D** (lines 35-36) argues that 'a more ambitious set of common macroeconomic policies would help speed recovery in the EU'.

Using the data and your economic knowledge, assess the impact on the UK economy of a recovery in the EU as a whole. *(25 marks)*

Turn over for the next question

STEMUP.CO.UK

Section B

Answer **one** question from this section.

Each question carries 40 marks.

Question 3

'Oil, as a form of energy, reigns supreme but it has brought significant problems to economies in terms of inflation in particular, and the potential for economic instability in general.'

0 7 Explain the main causes of inflation. *(15 marks)*

0 8 Discuss how rising oil prices might affect the macroeconomic performance of an economy. *(25 marks)*

Question 4

'While it is necessary to have macroeconomic policy objectives, such as price stability and full employment, they can sometimes prove difficult to reconcile.'

0 9 Explain the various macroeconomic policy objectives **and** their importance to an economy. *(15 marks)*

1 0 Discuss ways in which government economic policies can be used to try to reconcile conflicts between macroeconomic objectives. *(25 marks)*

Question 5

The deficit on the UK balance of trade in goods and services rose from £26 billion in 2003 to £44 billion in 2008.

1 1 Explain the main factors which might help determine the volume of UK exports and imports. *(15 marks)*

1 2 Evaluate government policies which might bring about a reduction in the UK deficit on the balance of trade in goods and services. *(25 marks)*

END OF QUESTIONS

STEMUP.CO.UK

There are no questions printed on this page

There are no questions printed on this page

Copyright © 2011 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1.0



General Certificate of Education
January 2011

ECONOMICS: ECON4

Unit 4: The National and International Economy

Final

Mark Scheme

STEMUP.CO.UK

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

Copyright © 2011 AQA and its licensors. All rights reserved.

COPYRIGHT
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX /

Advanced Level Economics Unit 4

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

(i) **An issue based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

(ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

STEMUP.CO.UK

AQA ADVANCED LEVEL (A2) ECONOMICS

LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY

A2 LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgments
Level 5 22-25 marks (mid-point 24) **Good analysis and good evaluation**	Good throughout the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) **Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Where appropriate, good use of data to support answer Some good application to issues Where appropriate, some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Good awareness of the inter-relatedness of economic issues Largely relevant and well organised with reasonable logic and coherence Some awareness of the inter-relatedness of economic issues	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) **Reasonable answer, including some correct analysis but very limited evaluation**	Satisfactory but some weaknesses shown	Reasonable application to issues Where appropriate, reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present Quite well organised with some logical development	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) **Weak with some understanding**	Limited and some errors are made	Partial application to issues with some errors Where appropriate, limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) **Very weak**	Weak with a number of errors	Little, if any, application to issues Where appropriate, no use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

An Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

STEMUP.CO.UK

1 THE GLOBAL CONTEXT

Total for this question: 40 marks

01 Using **Extract A**, identify **two** main features of China's macroeconomic performance for the period 2006 to 2010. *(5 marks)*

Award one mark for each valid point made and up to two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- economic growth has always been positive, eg 2007: 13.0%, 2009: 7.7%
- the rate of growth shows a decline until 2009 (7.7%) but then is forecast to revive in 2010 (9.3%)
- 2007 showed the highest growth figure (13.0%)
- 2009 was the poorest growth year (a forecast of 7.7%)
- inflation was at its highest in 2007 (7.4%) but is forecast to decline significantly by 2010 (0.5%)
- the fiscal balance is in surplus from 2006 – 2008 (as high as 4.2% in 2008) but is forecast to move into deficit in 2009 and 2010 of about – 3% of GDP per year
- the current account balance maintains its surplus throughout the period, ranging from 11.1% of GDP in 2007 to a forecast 7.8% of GDP in 2010
- although 2007 sees the highest GDP growth (13.0%), it also has the highest rate of inflation (7.4%).

Award a maximum of **1 mark** for use of data if % sign is not shown.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one valid point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

MAXIMUM FOR PART 01: 5 MARKS

STEMUP.CO.UK

02 **Extract B** (lines 4-5) refers to global investment undertaken by China.

Explain the term 'global investment' **and** analyse **two** economic consequences for an economy receiving such investment. *(10 marks)*

For candidates who:

explain the concept of global investment, eg

- define global investment in terms of international capital flows, perhaps with a reference to the role of multinational companies in this respect
- explain the growth of global investment, eg in terms of outsourcing, utilising cheap labour, establishing ownership of raw materials and energy supplies
- define/explain the term global investment, eg expenditure to generate future income; spending on capital equipment to increase output, perhaps to displace labour; human capital
- simply define global investment in terms of 'total investment in the world' (2 marks).

Up to 2 marks per definition and up to 2 marks for further explanation, or where there is no definition, up to 4 marks per explanation (including diagrams)

analyse **two** consequences of global investment, eg

- it promotes economic growth (1 mark) in that it is an injection into the circular flow of income (1 mark), generating higher AD through the multiplier process (1 mark) but also adding to the productive capacity of the recipient economy (1 mark)
- its impact on the further economic development of less-developed economies
- human capital formation helping to promote skills within a country's workforce
- financing innovation
- helping to improve productivity
- a general improvement in business efficiency
- any other valid point

Up to 4 marks per consequence analysed (1 mark for identification and up to 3 marks for analysis)

make use of diagrams in the analysis **up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

Reward references to the UK/other economies **1 mark per reference, to a maximum of 2 marks**

Where a candidate analyses more than two consequences, reward the best two.

A candidate can be awarded a maximum of **8 marks** if only the explanation and one consequence are analysed or for just two consequences analysed with no attempt at the first part of the question.

MAXIMUM FOR PART 02: 10 MARKS

STEMUP.CO.UK

03	In 2009, the World Bank described the Chinese economy as a "relative bright spot in an otherwise gloomy global economy" (**Extract B**, lines 34-35). Using the data and your economic knowledge, assess the consequences for the UK economy of China's continued economic growth during a global recession. *(25 marks)*

It is hoped that candidates will clarify the criteria by which consequences can be measured and then relate China's growth to the performance of the UK economy in an evaluative way.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Where there is no **explicit** reference to the data, award a maximum of **21 marks.**

There must be evidence of evaluation for candidates to score more than **15 marks.**

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- recession
- economic growth
- criteria for assessing consequences

Developing a response to the question:

- reference to the growth performance of the Chinese economy
- reference to the problems of the UK economy

STEMUP.CO.UK

- why continued growth of a major economy may be important to another country in recession
- economic growth
- the balance of payments
- employment/unemployment
- investment flows
- inflation
- China's growth perhaps causing inflation exacerbated by the UK pursuing a potentially inflationary policy of quantitative easing and fiscal expansion
- the impact on the UK of China taking increasing control over world resources by its investment
- China's contribution to the IMF which might ultimately be of benefit to the UK
- impact on the exchange rate.

Evaluation:

- the extent to which China wishes to share the 'proceeds' of growth with other countries by importing more goods
- although the phrase 'global recession' is used it may be that some other UK markets are not faring too badly, so making China's contribution to UK economic performance less significant
- the ability of the UK to maintain/increase market share in China
- China is pushing ahead with export-led growth which may not be in the long-term interests of UK manufacturing
- the extent to which the UK economy welcomes Chinese investment in its economy and whether China reciprocates.

Examiners should note that it may be possible to award some marks for basic evaluation such as for a general account of the pros and cons of growth and with no attempt to place it into the context of the UK/China. However, this must be considered as low-level evaluation and awarded accordingly.

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 03: 25 MARKS

STEMUP.CO.UK

2 THE EUROPEAN UNION CONTEXT — Total for this question: 40 marks

04	Using **Extract C**, identify **two** main features of unemployment for the period March 2008 to March 2009. *(5 marks)*

Award one mark for each valid point made and up to two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- all economies experience a more rapid growth of unemployment between October 2008 and March 2009 compared to the period March 2008 to October 2008 (e.g. UK 1.1% points and 0.9% points respectively)
- all economies show a worsening unemployment situation over the period, e.g. the EU: from 6.7% in March 2008 to 8.3% in March 2009
- France has the worst unemployment in March 2008 (7.6%) with Latvia taking that position by October 2008 (9.3%)
- Lithuania goes from having the best unemployment picture in March 2008 (4.3%) to having the second worst in March 2009 (15.5%)
- only Latvia and Lithuania reach double-digit unemployment (16.1% and 15.5% respectively in March 2009)
- although France shows only a 1.2% point difference in unemployment when comparing March 2008 to March 2009, for Lithuania the figure is 11.2%.

Award a maximum of **1 mark** for use of data if % signs are not shown.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one valid point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

MAXIMUM FOR PART 04: 5 MARKS

STEMUP.CO.UK

05 **Extract D** (lines 18-20) suggests that cyclical unemployment 'is now widespread' and that this 'could increase tensions between Eastern and Western members of the EU'.

Explain the term 'cyclical unemployment' **and** analyse **two** effects of cyclical unemployment. *(10 marks)*

For candidates who:

Explain

- cyclical unemployment (perhaps also referred to by a candidate as demand-deficient unemployment) occurs when aggregate demand in the economy is insufficient to buy the output produced when all resources are fully employed; aggregate demand is not sufficient to allow all workers to work who wish to work at current wages
- cyclical unemployment in terms of a negative output gap
- cyclical unemployment by relating it to the economic cycle
- cyclical unemployment by contrasting it with other types of unemployment

Up to 2 marks per definition and up to 2 marks for further explanation or where there is no definition, up to 4 marks per explanation (including diagrams)

Analyse **two** effects of cyclical unemployment, eg

- the likely official response to cyclical unemployment (1 mark) in that it is probable that government will attempt a fiscal boost of higher spending and tax cuts (1 mark) and the Bank of England may decide to cut interest rates (1 mark). Through the multiplier process and the onset of cheap credit, AD will rise (1 mark) *(only one way of increasing AD need be mentioned for the mark)*
- the impact on incomes and living standards
- the impact on output and thus GDP
- an increased willingness to take wage cuts/improve productivity in order to preserve jobs and the implications of this for business costs
- increased welfare dependency and the fiscal implications
- the economic consequences of EU disunity if some countries blame other members for suffering more from cyclical unemployment.

Up to 4 marks per consequence analysed (1 mark for identification and up to 3 marks for analysis)

make use of diagrams in the analysis **up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

Reward references to the UK/other economies **1 mark per reference, up to a maximum 2 marks**

Where a candidate analyses more than two effects, reward the best two.

A candidate can be awarded a maximum of **8 marks** if only the explanation and one consequence are analysed or for just two consequences analysed with no attempt at the first part of the question.

MAXIMUM FOR PART 05: 10 MARKS

STEMUP.CO.UK

06 **Extract D** (lines 35-36) argues that 'a more ambitious set of common macroeconomic policies would help speed recovery in the EU'.

Using the data and your economic knowledge, assess the impact on the UK economy of recovery in the EU as a whole. *(25 marks)*

It is hoped that candidates will show an understanding of the impact of recovery should it occur in the UK and then go on to evaluate the further impact if the recovery is EU-wide and not simply confined to the UK.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

Where there is no **explicit** reference to the data, award a maximum of **21 marks.**

There must be evidence of evaluation for candidates to score more than **15 marks.**

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- common macroeconomic policies
- economic recovery
- the significance of the rest of the EU to the UK
- the criteria by which the impact on the UK economy might be assessed.

Developing a response to the question:

- the implications for economic growth
- the impact on employment/unemployment
- the consequences for the balance of payments on current account

STEMUP.CO.UK

- the effects on the £/€ exchange rate
- the greater likelihood of avoiding a period of deflation
- the dangers of inflationary pressures building up
- the further development of the SEM in a period of recovery and increasing prosperity.

Evaluation:

- the possible significance of a slow recovery
- the possible supply problems if recovery is too rapid
- whether the UK can take advantage of EU recovery
- whether the advantage lies more with the rest of the EU in terms of exporting to the UK than for the UK exporting to the rest of the EU
- the significance of EU recovery for the UK relative to recovery taking place elsewhere in the world, i.e. in markets which have significance for the UK
- whether or not recovery has implications for the movement of labour in and out of the UK and how this affects the UK labour market.

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 06: 25 MARKS

STEMUP.CO.UK

SECTION B

Question 3 **Total for this question: 40 marks**

'Oil, as a form of energy, reigns supreme but it has brought significant problems to economies in terms of inflation, in particular, and the potential for economic instability in general.'

07 Explain the main causes of inflation. *(15 marks)*

For candidates who:

Define/explain

- inflation, with an explanation perhaps in terms of official UK measurement, how measurement is arrived at, recent experiences, other relevant factors

Up to 2 marks for a definition and up to a further 2 marks for an explanation, for example, reference to its measurement to a maximum of 4 marks

Explain causes of inflation, eg

included within **cost-push factors** could be:

- the rising cost of oil (1 mark), which for many firms will be a significant cost of production (1 mark). As oil costs rise, assuming no fall in other costs of the firm (1 mark) a decision has to be made that either profit margins be narrowed (1 mark) or prices of final output need to rise (1 mark). One consideration will be the price elasticity of demand for the product in question (1 mark), i.e. the more inelastic is demand, the more likely consumers will absorb any price increase (1 mark)
- wage costs
- supply-side weaknesses, eg low productivity
- imported inflation, perhaps via exchange rate depreciation

Included within **demand-pull factors** could be

- the demand-pull inflationary process
- the impact of monetary policy
- the impact of fiscal policy
- earnings growth

other factors could also be considered, eg

- expectations
- money supply/monetarist explanation
- any other valid point

up to 7 marks per explanation (1 mark for identification and 6 marks for the explanation)

make use of diagrams in the analysis **up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks**

MAXIMUM FOR PART 07: 15 MARKS

STEMUP.CO.UK

08	Discuss how rising oil prices might affect the macroeconomic performance of an economy. (*25 marks)*

It is hoped that candidates will recognise the need to evaluate issues given the command word 'discuss' and show that not all economies will be affected to the same extent and that any effects will be conditioned by the extent of the price rises and their duration.

Level 5	**Good analysis and good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- reference to the quote in the question
- the recent experience of rising oil prices
- criteria for assessing macroeconomic performance

Developing a response to the question:

- the implications of this for the pattern of production
- consequences for the balance of payments on current account
- inflation
- the impact of inflation on jobs
- the impact of inflation on economic growth
- rising oil prices and business and consumer confidence
- implications for government revenue and expenditure
- the impact on export performance

STEMUP.CO.UK

Evaluation:

- whether the oil price increases are simply building on past price increases or whether they represent a supply-side shock of which there has been little or no recent experience
- whether or not petrol taxes are reduced to compensate for higher oil prices
- mature economies having less dependency on oil
- whether price increases are sustained over a long period of time
- whether, as in the UK's case, an economy is also an oil exporter as well as an importer
- whether rising economic growth and inflation-reducing forces are in evidence to dull the impact of rising oil prices

Also give credit for:

- relevant use of evidence and examples from the UK/other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 08: 25 MARKS

STEMUP.CO.UK

Question 4 **Total for this question: 40 marks**

'While it is necessary to have macroeconomic policy objectives, such as price stability and full employment, they can sometimes prove difficult to reconcile.'

09 Explain the various macroeconomic policy objectives **and** their importance to an economy. *(15 marks)*

For candidates who:

Define the concept of macroeconomic policy objectives in terms of reference to the criteria by which macroeconomic performance is measured **Up to 2 marks**

Explain macroeconomic policy objectives, eg

- economic growth can be defined as increases in the productive capacity of an economy (1 mark). Such increases will determine the long-run trend rate of growth (1 mark) and will shift the LRAS curve and the PPC to the right (1 mark). Actual growth can be measured by GDP (1 mark)
- price stability
- full employment or low unemployment
- improving the performance of the balance of payments on current account
- exchange rate stability
- fiscal stability
- any other valid point **Up to 3 marks per explanation (1 mark for identification and up to 2 marks for the explanation)**

Explain the importance of macroeconomic policy objectives to an economy, eg

- price stability and international competitiveness
- economic growth and living standards
- the balance of payments on current account
- the importance of reducing unemployment
- an essential requirement for efficient policy making
- they establish benchmarks against which the authorities, NGOs, economists, business can measure success/failure within the economy
- they allow policies to be formulated in good time if objectives seem increasingly unlikely to be met
- because of the inherent weaknesses there may be in an economy, it is vital to have objectives which give a sense of direction and which provide the prospect of being able to remedy those weaknesses
- if achieved, they create a stable economic climate for the private sector
- any other valid point **up to 5 marks per point of importance explained**

Make use of diagrams in the analysis **up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks**

A maximum of **10 marks** may be awarded if a candidate attempts only the first part of the question and a maximum of **12 marks** if only the second part is attempted.

MAXIMUM FOR PART 09: 15 MARKS

STEMUP.CO.UK

10	Discuss ways in which government economic policies can be used to try to reconcile conflicts between macroeconomic objectives. *(25 marks)*

It is hoped that candidates will be able to illustrate what is meant by conflicts before going on to evaluate ways of reconciling them.

Level 5	**Good analysis <u>and</u> good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- macroeconomic objectives in contrast to microeconomic
- the meaning of conflicts between macroeconomic policy objectives
- how objectives might be ranked in order of importance by any one government

Developing a response to the question:

- examples of potential conflict, eg
  - economic growth and price stability
  - full employment and price stability
  - demand-led growth and the balance of payments on current account
  - attempted corrections to the balance of payments deficit on current account and economic growth and/or employment
- the differing impact of expenditure-switching and expenditure-dampening policies
- supply-side policies

STEMUP.CO.UK

Evaluation:

- some ways of trying to reconcile conflict may not be politically expedient, eg increasing unemployment in order to control inflation
- government may attempt to reconcile conflict through fine-tuning which does not have a good track record
- conflict can be short term, supply-side remedies long term
- limiting growth in order to stabilise prices might harm material living standards
- supply-side improvements may be made, eg productivity, but may not bring a reduction of conflict if other countries have seen improvements to a greater extent, eg economic growth increases the flow of imports. An export drive to balance this may be unsuccessful if our productivity improvement is outpaced by that in other countries.
- the rate of inflation may be controlled but inflation may still be higher than in the economies of our trading partners, perhaps limiting the desired improvement to the current account (inflation having caused a deterioration)
- the policy constraints for members of the eurozone which won't apply to those members of the EU, including the UK, who have not adopted the euro

Also give credit for:

- relevant use of evidence and examples from the UK/other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 10: 25 MARKS

STEMUP.CO.UK

Question 5 **Total for this question: 40 marks**

The deficit on the UK balance of trade in goods and services rose from £26 billion in 2003 to £44 billion in 2008.

11 Explain the main factors which might help determine the volume of UK exports and imports. *(15 marks)*

For candidates who:

Define/explain

- exports/imports
- balance of trade in goods and services
- the balance of trade in goods and services in the context of the current account or the balance of payments as a whole
- the possible nature of a country's exports and imports given its own stage of development

Up to 2 marks per definition and up to 2 marks for any further explanation, to a maximum of 4 marks

Explain factors which help determine the volume of exports and imports which a country achieves, eg

- the UK may adopt a strategy of export-led growth (1 mark). This may be because it is perceived as the most rapid way of achieving economic growth (1 mark) and/or because it feels itself to be very competitive in world markets (1 mark). It may recognise that a good export performance will initiate a multiplier effect (1 mark) which should benefit the economy beyond the export sector (1 mark) and that exports may well encourage supply-side improvements (1 mark) such as innovation and higher productivity to sustain good external performance (1 mark)
- favourable terms of trade (examiners note that this term is not included in the specification but candidates may well discuss relative export/import prices even if the term is not used)
- the need for imports of raw materials, energy and/or finished goods, e.g. because the UK has lost so much of its industrial base
- a sustained favourable exchange rate motivates an export drive
- absolute/comparative advantage, e.g. UK comparative advantage in financial services
- the impact on UK exports of overseas recession, especially the US and the EU as far as the UK is concerned
- exchange rate movements
- relative inflation rates
- relative rates of productivity (traditionally unfavourable for the UK) and impact on competitiveness
- the ability of the UK to impose protectionist policies
- any other valid point.

Up to 7 marks per explanation (1 mark for identification and 6 marks for the explanation)

However, it may be that a candidate devotes much of his/her answer to the issue of comparative advantage and develops the point with a numerical example. If this is the case award up to 10 marks for an explanation of comparative advantage.

make use of diagrams in the analysis **Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 4 marks**

MAXIMUM FOR PART 11: 15 MARKS

STEMUP.CO.UK

12 Evaluate government policies which might bring about a reduction in the UK deficit on the balance of trade in goods and services. *(25 marks)*

Given that the question cites the UK economy, it is hoped that candidates will be able to distinguish policies which are relevant in the UK context, e.g. supply-side policies, from those which are unlikely to be pursued, e.g. direct official intervention in the foreign exchange market. This would help form the basis of evaluative comments made.

Unlike Questions 3 and 4, Question 5 refers to the UK economy. However, in fairness to candidates opting for this question, no mark constraint is being imposed if reference to the UK economy is weak or non-existent as would normally be the case.

Level 5	**Good analysis and good evaluation**	**22-25 marks (mid-point 24)**
Level 4	**Good analysis but limited evaluation** **OR** **Reasonable analysis and reasonable evaluation**	**17-21 marks (mid-point 19)**
Level 3	**Reasonable answer, including some correct analysis but very limited evaluation**	**10-16 marks (mid-point 13)**
Level 2	**Weak with some understanding**	**4-9 marks (mid-point 7)**
Level 1	**Very weak**	**0-3 marks (mid-point 2)**

There must be evidence of evaluation for candidates to score more than **15 marks.**

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- the balance of trade in goods and services
- the balance of payments accounts
- surplus/deficit.

Developing a response to the question:

- supply-side policies
- exchange rate manipulation
- protectionist policies
- controlling aggregate demand in order to constrain import growth and release more output to the export sector
- adoption of an export-led growth strategy

STEMUP.CO.UK

- control of inflation if this is perceived to be the cause of the problem
- expenditure-switching policies compared to expenditure-dampening policies.

Evaluation:

- the need to distinguish between those policies which offer a possible short-term improvement and those which offer a potential cure for the problem in the long term (e.g. a reference to expenditure-dampening v expenditure switching).
- the need to distinguish policies which can be regarded as realistic in the current climate, e.g. supply-side policies, from those which might be politically unacceptable, e.g. protectionism
- some policies may not bring immediate improvement, eg the long-term nature of supply-side policies; exchange rate manipulation and the J-curve effect
- there may be less significance attached to the deficit if it is seen as part-and-parcel of a maturing economy which, although successful in the trade in services, has lost much of its industrial base, thus needing to import more finished goods
- the underlying issue of whether or not a deficit really matters if it does not impede economic growth and job creation and does not damage investor and business confidence.

Also give credit for:

- relevant use of evidence and examples from the UK/other economies
- diagrams
- an overall judgement on the issues raised.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART 12: 25 MARKS

STEMUP.CO.UK

General Certificate of Education
Advanced Level Examination
January 2010

Economics ECON4

Unit 4 The National and International Economy

Tuesday 2 February 2010 1.30 pm to 3.30 pm

For this paper you must have:
- a 12-page answer book.

You may use a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ECON4.
- In **Section A**, answer **EITHER** Question 1 **OR** Question 2.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 80.
- There are 40 marks for **Section A** and 40 marks for **Section B**.
- The marks for questions are shown in brackets.
- The paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Advice
- You are advised to spend 1 hour on **Section A** and 1 hour on **Section B**.

STEMUP.CO.UK

SECTION A

Answer **EITHER** Question 1 **OR** Question 2.

EITHER

1 THE GLOBAL CONTEXT

Total for this question: 40 marks

Study **Extracts A and B**, and then answer **all** parts of Question 1 which follows.

Extract A: Exports of goods ($bn, quarterly) for selected economies in 2007

	Q1	Q2	Q3	Q4
China	94	99	106	106
India	11	12	12	13
Japan	57	58	60	64
UK	35	36	37	39
USA	90	93	99	101

Source: official statistics, accessed on 27 May 2008

Extract B: Is trade the key to success?

There are few economists today who will argue against the importance of international trade in promoting economic growth and thereby improving living standards. This can be through both its impact on aggregate demand and the stimulus given to supply-side reforms. Undoubtedly, much progress has been made in achieving freer trade.

A recent World Bank study concluded that the average incomes in 24 countries, which had reduced protectionist barriers and so had become much more open to trade, had risen by almost 70% in the period 1980 to 2000. More closed, protectionist, economies had seen their incomes per head rise by only 10%. Although other factors need to be considered in such an analysis, statistics such as these strengthen the argument that the benefits to growth and jobs, as well as to living standards, can be substantial.

Economic theory explains why trade might develop between countries. While absolute advantage might play a part, David Ricardo introduced the principle of comparative advantage. He argued that countries will specialise in the production of those items in which their comparative advantage is greatest; that is, where the opportunity cost of doing so is lower than that of another country or countries.

As trade develops, based on this principle, greater efficiency, lower prices, greater choice and economies of scale are among the benefits which might be experienced. But we cannot always be sure that comparative advantage is the most influential

STEMUP.CO.UK

factor in determining trade patterns. Both price and non-price factors, as well as protectionist policies such as tariffs, quotas and export subsidies, can be powerful influences. Some economists warn against what can be called a creeping protectionism, for example to protect jobs or to help new or declining industries, especially as world economic conditions deteriorate.

However, it may not be world economic conditions that encourage protectionism but simply survival against the stunning growth of individual economies. China, for example, growing by around 10% per annum, has seen an expansion of exports of 20% per annum.

Those in countries such as the US and UK who call for more protection need to bear in mind that, as China and others become richer, they will demand more and more of our goods and services. *The World Trade Organization* (WTO) works relentlessly to promote more free trade. The Doha trade talks began in 2001, providing a framework in which members agreed in 2004 and 2005 to cut substantially trade-distorting export subsidies, slash industrial tariffs and to consider freer trade in services. Emerging developing countries, such as India and Brazil, will, however, be opening their markets to a lesser extent. The WTO considered 2008 to be the 'crunch' year in trying to finalise such agreements. July of that year saw Doha end in failure.

Developed economies, such as the US and the UK, may be very concerned for their macroeconomic performance since these agreements could lead to greater openness of their economies to world markets. However, there is also widespread recognition of the actual benefits of free trade to developed economies.

Source: news reports, 2008

Question 1

1 (a) Using **Extract A**, identify **two** main features of the exports of goods in 2007. *(5 marks)*

(b) **Extract B** (lines 1-2) refers to the 'importance of international trade in promoting economic growth'.

Explain the concept of economic growth **and** analyse **two** ways in which international trade can increase a country's economic growth. *(10 marks)*

(c) **Extract B** (lines 40-42) suggests that the US and the UK may be 'very concerned for their macroeconomic performance' if free trade agreements lead to greater openness of their economies.

Using the data and your economic knowledge, assess the possible impact on the UK economy of greater openness to world markets. *(25 marks)*

Turn over ▸

STEMUP.CO.UK

Do **not** answer Question 2 if you have answered Question 1.

OR

2 THE EUROPEAN UNION CONTEXT

Total for this question: 40 marks

Study **Extracts C and D,** and then answer **all** parts of Question 2 which follows.

Extract C: Real GDP growth (%), 2006-2009, selected economies*

	2006	**2007**	**2008** *(forecast)*	**2009** *(forecast)*
UK	2.8	3.0	1.0	-0.1
USA	2.8	2.0	1.6	0.1
Euro area	2.8	2.6	1.3	0.2
Major advanced economies (G7)	2.7	2.2	1.2	0.1
Newly-industrialised Asian economies	5.6	5.6	4.0	3.2

Source: official statistics, accessed on 20 October 2008

* The G7 is the Group of 7. These are the leading economies of the world and include France, the UK and the USA. The newly-industrialised Asian economies include Hong Kong, Singapore and Korea.

Extract D: Is an economic tidal wave about to roll over Europe?

As the storm clouds have gathered across the global economy, there is little reason for optimism when assessing the state of the European Union (EU) economy over the next few years. It is possible that the EU will enter recession in the last quarter of 2008, with unemployment hovering around 7% as economic growth slows or becomes negative.

For most of 2007, Europe witnessed robust growth but signs of strain increased towards the end of the year. After that, falling consumer and business confidence, rising oil prices, together with a stronger euro, diminished growth expectations.

Inevitably, there are variations across the EU. Spain, for example, has witnessed a dramatic fall in business confidence which will impact on GDP growth, while Germany, by squeezing wages, has gained 40% in labour cost competitiveness against Italy and 30% against Spain since the 1990s. Its current account balance is in stark contrast to the deficits in a number of other EU countries, but economic growth is forecast to be only 1% by 2009. The UK's economic future looks uncertain and recession is a strong possibility.

It is difficult to predict what the impact of US economic weakness will be on the EU. Economic links between the US and the EU remain significant but EU trade (including that of the UK) with Asia, the Middle East and the emerging non-EU economies of Europe has increased markedly. Continuing revelations of losses to EU banks from the US housing market downturn have further undermined confidence and tightened credit.

2008 has not brought about any revival of optimism across the EU. Further euro appreciation

STEMUP.CO.UK

is of concern (although, for the UK, the pound has shown signs of weakening), as is the continuing instability of the US economy. The world-wide 'credit crunch' has only served to generate greater pessimism.

Inflation has also been a major cause for concern. Both the Bank of England and the European Central Bank (ECB) know that, above all else, price stability has to be delivered. Hence interest rates remain relatively high, given UK inflation of over 4% and euro area inflation of 3.5%. High interest rates form part of the explanation for the strong euro which is causing problems for the EU aeronautic, automobile and textile industries in particular. But, even so, many UK exporters would like to see a further weakening of the pound.

It is hoped that less pressure on productive capacity, together with slower energy and food price inflation, will help reduce the inflation problem in 2009. There has even been talk of eventual deflation which will bring its own problems.

In the later part of 2008, interest rates began to fall, offering some hope to households and businesses. However, there may need to be greater reliance on a fiscal boost to bring recovery. The Stability and Growth Pact (to which the UK informally adheres) limits the fiscal deficit of each member of the euro area to a maximum of 3% of GDP. Given this limitation, one estimate suggests that in 2008 the euro area's fiscal position would only allow for a widening of the deficit by just 0.5% of GDP. So, a relaxation of fiscal rules such as these would certainly be helpful.

It is likely, however, that the EU, including the UK, may need to rely on an external economic stimulus to improve macroeconomic performance. This could come from a sharp US recovery or from more rapid economic growth in Asia.

Source: news reports, 2008

Question 2

2 (a) Using **Extract C**, identify **two** significant points of comparison in real GDP growth between the economies shown for the period 2006 to 2009. *(5 marks)*

(b) **Extract D** (line 3) suggests that it is possible that 'the EU will enter recession'.

Explain the term 'recession' **and** analyse **two** possible causes of a recession. *(10 marks)*

(c) **Extract D** (lines 39-40) concludes that 'the EU, including the UK, may need to rely on an external economic stimulus to improve macroeconomic performance'.

Using the data and your economic knowledge, assess the possible effects on UK macroeconomic performance of an external economic stimulus, whether arising from other EU members or from other parts of the world. *(25 marks)*

Turn over for the next question

STEMUP.CO.UK

SECTION B

Answer **one** question from this section.

Each question carries 40 marks.

3 (a) Explain the concept of the natural rate of unemployment **and** the factors which might determine it. *(15 marks)*

(b) In May 2008, the Governor of the Bank of England spoke of the need for the UK economy to move away from spending and importing, towards saving and exporting.

Evaluate the consequences for UK unemployment if this movement were to occur. *(25 marks)*

4 (a) Explain how fiscal policy might be used to bring about supply-side improvements to an economy. *(15 marks)*

(b) The level of UK public sector spending grew from 37% of GDP in 1997 to over 45% in 2008.

To what extent do you regard such an expansion of the public sector as beneficial to the UK economy? *(25 marks)*

5 (a) Explain the factors which help determine the exchange rate of a currency. *(15 marks)*

(b) In a floating exchange rate system, a currency may be subject to frequent fluctuations in its external value.

Discuss the possible economic consequences of such fluctuations for the achievement of a country's macroeconomic objectives. *(25 marks)*

END OF QUESTIONS

STEMUP.CO.UK

There are no questions printed on this page

STEMUP.CO.UK

There are no questions printed on this page

Copyright © 2010 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1.0 02/10

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Economics

ECON4: The National and International Economy

Mark Scheme

2010 examination - January series

STEMUP.CO.UK

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

Copyright © 2010 AQA and its licensors. All rights reserved.

COPYRIGHT
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX
Dr Michael Cresswell Director General

Advanced Level Economics Unit 4

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

(i) **An issue based approach.** The mark scheme for parts (a) and (b) of the data response questions and part (a) of the essay questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.

(ii) **A levels approach.** This approach is used for part (c) of the data response questions and part (b) of the essay questions. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (e.g. 14 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

STEMUP.CO.UK

THE LEVELS MARK SCHEME FOR A2

Level Descriptions

In part (c) of the data response questions and part (b) of the essay questions, 40% of the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 15 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer
Few, if any, relevant issues are recognised. Descriptions and explanations lack clarity. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. There might be some evidence of organisation in the answer but generally it fails to answer the question. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary. **0 to 6 marks**

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown
A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. Descriptions and explanations are sometimes hard to follow. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. There is some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. There is some limited logic and coherence in the organisation of the answer. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately. **7 to 11 marks**

Mid-Point 9 marks

Level 3: An adequate answer with some correct analysis but very limited evaluation
A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. There is some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some use of specialist vocabulary which is applied appropriately. **12 to 16 marks**

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation
Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate

STEMUP.CO.UK

demonstrates some ability to synthesise the arguments presented and come to some relevant conclusions although these might not always be based on evidence presented. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. A wide range of specialist vocabulary is used with facility. **17 to 21 marks**

Mid-Point 19 marks

Level 5: Good analysis and evaluation

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to answer the question. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. The candidate shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/models identified. The candidate demonstrates the ability to synthesise the arguments presented and come to conclusions which are based on the evidence presented. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. A wide range of specialist vocabulary is used with facility. **22 to 25 marks**

Mid-Point 24 marks

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

STEMUP.CO.UK

1 THE GLOBAL CONTEXT — Total for this question: 40 marks

1 (a) Using **Extract A,** identify **two** main features of the export of goods in 2007. *(5 marks)*

Award one mark for each valid point made and two marks for the supporting reference to the data, up to a maximum of 5 marks.

Points might include:

- China has the largest absolute increase in exports of goods over the period ($12bn)
- India has the smallest absolute increase in the export of goods ($2bn)
- In terms of % increase, India has the highest % growth of exports of goods (18.2%)
- All economies with the exception of India show a similar growth in export of goods of 11 – 12%
- All economies show a quarter-on-quarter increase in the export of goods, although China's export of goods remains constant in Q3 and Q4 ($106bn), as does that of India Q2/Q3 ($12bn)
- India has the smallest value of exports of goods in each quarter (a range of $11 - $13bn)
- China has the greatest value of export of goods in each quarter (a range of $94 - $106bn)
- Over the whole year and across all the economies, the range of values is $95bn (India Q1, $11bn – China Q3/Q4, $106bn)

Award a maximum of **1 mark** for each supporting reference to the data if the per cent sign is not used.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one good point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

MAXIMUM FOR PART (a): 5 MARKS

STEMUP.CO.UK

1 (b) **Extract B** (lines 1-2) refers to the 'importance of international trade in promoting economic growth'.

Explain the concept of economic growth **and** analyse **two** ways in which international trade can increase a country's economic growth. *(10 marks)*

For candidates who:

explain the concept of economic growth, e.g.

- GDP/actual growth
- potential growth

Up to 3 marks per definition or explanation to a maximum of 6 marks (including diagrams)

analyse two ways in which international trade can increase a country's economic growth, e.g.

- encouraging the identification and development of a country's comparative advantage (1 mark), explaining it in terms of opportunity cost (1 mark) and through the exploitation of such an advantage through specialisation (1 mark), causing output to increase (1 mark)
- facilitating the acquisition of cheap imports of energy and raw materials and being more able to pay for these through enhanced export performance
- increasing aggregate demand in the economy especially with the introduction of an export-led multiplier
- trade as a stimulus to supply-side reforms in order to strengthen an economy's performance in world markets
- a particular reference to the way in which trade can stimulate efficiency drives which can be reflected in improvements to labour productivity
- trade as a stimulant to investment, a prime mover in achieving higher economic growth

Up to 4 marks may be awarded for each of the chosen factors (1 mark for identification and 3 marks for analysis)

make relevant use of diagrams in the analysis **Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

Reward references to the UK/other economies **up to 2 marks**

A candidate can be awarded a maximum of **6 marks** if only one part is attempted.

MAXIMUM FOR PART (b): 10 MARKS

STEMUP.CO.UK

1(c) **Extract B** (lines 40-42) suggests the US and the UK may be 'very concerned for their macroeconomic performance' if free trade agreements lead to greater openness of their economies.

Using the data and your economic knowledge, assess the possible impact on the UK economy of greater openness to world markets. *(25 marks)*

It is hoped that candidates will be able to show an understanding of the term 'macroeconomic performance' and 'greater openness' before going on to assess the potential impact on the UK economy. Although growth may be returned to, examiners should expect both greater depth of analysis and some evaluation compared to the answer offered in response to part (b). **Where a candidate only repeats his/her answer to part (b) with limited elaboration, the mark awarded should not go beyond mid-level 2.**

Examiners should also bear in mind that the greater openness referred to could apply to other economies and not just the UK, and some candidates might develop their responses in this way.

To achieve **Level 4,** at least **two** issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

Where there is no **explicit** reference to the data, award a maximum of **20 marks.**

There must be evidence of evaluation for candidates to score more than **15 marks.**

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- the nature of trade restrictions
- the past progress towards free trade
- the work of GATT/WTO

Developing a response to a question:

- whether greater openness means what it implies, e.g. it might be argued by some countries that export subsidies do not count as a restriction
- the unfettered ability to exploit absolute/comparative advantages
- the particular threat of newly-emerging economies and, in particular, the BRIC economies
- the impact on UK growth
- the impact on UK inflation
- the impact on the balance of payments and the exchange rate
- the impact on UK employment

STEMUP.CO.UK

Evaluative issues:

- how restricted trade had been before the greater openness
- the strength of the economy to face the challenge presented by greater openness
- the importance of trade to the economy
- the impact perhaps being determined by the phase of the economic cycle the UK was in at the outset
- the relevance and importance of distinguishing between short and long term considerations
- the degree of openness, and hence vulnerability, to exogenous shocks

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (c): 25 MARKS

STEMUP.CO.UK

2 THE EUROPEAN UNION CONTEXT — Total for this question: 40 marks

2 (a) Using **Extract C,** identify **two** points of comparison in real GDP growth between the economies shown for the period 2006 to 2009. *(5 marks)*

Award one mark for each valid point made and two marks for the supporting reference to the data, up to a maximum of 5 marks. Points might include:

- all countries are similar in showing a slow-down in the rate of growth of real GDP between 2006 and 2009, eg the euro area from 2.8% in 2006 to 0.2% in 2009
- all economies over the period, with the exception of the UK in 2009, avoid negative growth of real GDP, with actual or forecast growth ranging from 0.1% in the USA and G7 economies in 2009, to 5.6% in the Asian economies, 2006/07
- the UK shows the greatest slow-down in the growth of real GDP (2.9% points), the Asian economies, the smallest slowdown (2.4 % points)
- taking the average growth of real GDP over the period, the Asian economies are the most impressive (4.6%), the major advanced economies the least impressive (1.55%)
- the actual figures for 2006 and 2007 show the Asian economies with 5.6% growth of real GDP in each year, whereas the other economies never exceed 3.0% (UK, 2007)
- the forecast figures for 2008 and 2009 show the Asian economies by far the best growth performers whereas 1.6% is the best that can be achieved amongst the other economies shown (USA in 2008)

Award a maximum of **1 mark** for each supporting reference to the data if the % sign is not used

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data.

A maximum of **2 marks** may be awarded if there is no use of statistics which support the point(s) being made.

A maximum of **4 marks** may be awarded where there is evidence of an overview (one good point is included with data) even though other parts of the answer give the impression of a few statistics chosen at random.

MAXIMUM FOR PART (a): 5 MARKS

STEMUP.CO.UK

2 (b) **Extract D** (line 3) suggests that it is possible 'the EU will enter recession'.

Explain the term 'recession' **and** analyse **two** possible causes of a recession.
(10 marks)

For candidates who:

explain the term 'recession', eg

- a definition, eg two successive quarters of negative GDP growth
- putting the term into the context of the whole economic cycle
- referring to the UK/EU experience
- relates to slowdowns and output gaps

Up to 3 marks per definition or explanation to a maximum of 6 marks (including diagrams)

analyse two causes of a recession, eg

- an external shock such as higher oil prices (1 mark) so that more spending power has to be reallocated to oil/petrol and away from non-oil products (1 mark) and cost-push inflation erodes real income (1 mark), causing consumer demand to suffer (1 mark)
- unanticipated domestic development(s)
- damage to confidence amongst consumers, impact on consumption
- damage to business confidence, impact on investment
- housing market developments
- higher interest rates
- fiscal constraints
- loss of major overseas markets
- changes to aggregate demand

up to 4 marks may be awarded for each of the chosen causes (1 mark for identification, up to a further 3 marks for the analysis)

make relevant use of diagrams in the analysis **up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a maximum of 3 marks**

Reward references to the UK/other economies **up to 2 marks**

A candidate can be awarded a maximum of **6 marks** if only one part is attempted.

MAXIMUM FOR PART (b): 10 MARKS

STEMUP.CO.UK

2 (c) **Extract D** (lines 39-40) concludes that 'the EU, including the UK, may need to rely on an external economic stimulus to improve macroeconomic performance'.

Using the data and your economic knowledge, assess the possible effects on UK macroeconomic performance of an external economic stimulus, whether arising from other EU members or from other parts of the world. *(25 marks)*

It is hoped that candidates will show an understanding of what an external economic stimulus could be and then compare it to what might be expected from within the UK in terms of stimuli to, or constraints on, macroeconomic performance.

To achieve **Level 4,** at least **two** issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

Where there is no **explicit** reference to the data, award a maximum of **20 marks**.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- a consideration of the nature of the stimulus, e.g. lower oil prices, the recovery of the US economy, the further rapid growth of BRIC economies and their markets, rejuvenated MNC investment activity
- an understanding of the term 'macroeconomic performance'

Developing a response to the question:

- economic growth
- employment
- prices
- the balance of payments
- the exchange rate

Evaluative comments:

- how an external stimulus relates to internal developments, eg interest rates, fiscal boost
- the ability of the UK economy to face the challenge which an external stimulus might create
- the duration of the stimulus
- whether that stimulus is having to combat equally strong external 'deflators' affecting the UK economy
- the strength of the stimulus
- whether or not it comes after significant weakening of the UK economy has taken place

STEMUP.CO.UK

- whether the stimulus benefits all of the EU and therefore whether the UK can also benefit, as a member, from the rejuvenation of the EU
- the possible greater significance should the stimulus arise from the remainder of the EU
- whether or not the stimulus comes at a time of overheating of the economy
- the impact on business and consumer confidence and the effects of this

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (c): 25 MARKS

STEMUP.CO.UK

SECTION B

3 **Total for this question: 40 marks**

3 (a)	Explain the concept of the natural rate of unemployment **and** the factors which might determine it. *(15 marks)*

For candidates who:

Define/explain unemployment **Up to 2 marks**

Define/explain the natural rate of unemployment, eg definition of the natural rate: the proportion of workers who are voluntarily unemployed when the labour market is in equilibrium, refusing opportunities for work at existing wage rates, the rate at which inflation is stable; explanation of the natural rate of unemployment, eg

- voluntary unemployment, e.g. structural, frictional, compared to involuntary unemployment
- its relationship with stable inflation
- the significance of unemployment being above/below the natural rate
- the Phillips Curve
- the labour market in equilibrium **Up to 5 marks per feature explained**

(1 mark for identification and up to 4 further marks for the explanation)

Explain the factors determining the natural rate of unemployment, eg

- the pace of structural change in the economy (1 mark) to reflect more accurately the changing pattern of consumer demand (1 mark) so that, as consumer demand rises (1 mark), it is more likely that the supply side can respond more adequately (1 mark), providing a greater likelihood that inflation can remain stable (1 mark)
- the influences on frictional unemployment
- the incidence of seasonal unemployment
- the flexibility of wage rates
- mobility of the labour force occupationally and geographically
- welfare reform
- training and re-training
- government initiatives, eg the New Deal and Family Tax Credits

Up to 5 marks per determinant explained

(1 mark for identification and up to 4 further marks for the explanation)

use relevant diagrams to help the explanations **Up to 2 marks per diagram**

(1 mark for labelling, 1 mark for the correct information shown) to a total of 4 marks

A maximum of **10 marks** may be awarded if a candidate only answers one part of the question.

MAXIMUM FOR PART (a): 15 MARKS

STEMUP.CO.UK

3 (b) In May 2008, the Governor of the Bank of England spoke of the need for the UK economy to move away from spending and importing, towards saving and exporting.

Evaluate the consequences for UK unemployment if this movement were to occur. *(25 marks)*

It is hoped that candidates will attempt an explanation of what the Governor means by the suggested changes and then focus on the impact of what is explained on unemployment trends in the UK.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- the types of unemployment
- general comments on saving/spending, exporting/importing
- the general relevance of the suggested changes made to each of these, ie the potential benefits to the real economy

Developing a response to the question:

- the impact of reduced spending/slowdown in the rate of growth of spending on AD
- the impact of changes in spending on imports on AD and the current account
- the potential benefits of increased saving to the financing of investment
- the potential release of resources to the export sector for GDP and the current account
- how the suggested adjustments might be achieved and the impact of this, e.g. through changes in interest rates
- the multiplier
- short-run and long-run distinctions

Evaluation:

- the extent of any imbalance in the economy and whether it has been significant
- the extent of, and success with, the adjustment which takes place
- how enduring the adjustment proves to be
- whether or not this adjustment really will prove to be the remedy for the economy's weaknesses
- the possibility of external influences impeding the process
- placing adjustment into the context of recent UK experience

STEMUP.CO.UK

Also give credit for:

- relevant use of evidence and examples
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 25 MARKS

STEMUP.CO.UK

4 (a) Explain how fiscal policy might be used to bring about supply-side improvements to an economy. *(15 marks)*

For candidates who:

define fiscal policy and/or supply side and/or supply-side improvements
Up to 2 marks per definition to a maximum of 4 marks

explain ways in which fiscal policy might be used with this objective in mind, eg

- a reduction in welfare benefits (1 mark), which can be related to the unemployment trap (1 mark) whereby the benefits system makes non-work financially attractive (1 mark) since wage may fall below expected benefits (1 mark) and the replacement ratio is in need of change (1 mark)
- a reduction in income tax rates/increase in tax thresholds, related to the poverty trap
- government initiatives such as the New Deal and Tax Credit system
- relevant types of government spending such as resettlement allowances, health-care, but more importantly, education and training/retraining programmes
- tax allowances on new investment
- reforms to corporation tax
- appropriate regional spending
- infra-structure **Up to 5 marks**

(1 mark for identification and 4 further marks for explanation)
per aspect of fiscal policy relevant to supply-side improvements that is explained

use relevant diagrams to help the explanations **Up to 2 marks per diagram**
(1 mark for labelling, 1 mark for the correct information shown)
to a total of 4 marks

MAXIMUM FOR PART (a): 15 MARKS

STEMUP.CO.UK

4 (b) The level of UK public sector spending grew from 37% of GDP in 1997 to over 45% in 2008.

To what extent do you regard such an expansion of the public sector as beneficial to the UK economy? *(25 marks)*

It is hoped that candidates will be able to comment on the significance of the increase in public spending, give some indication of why this increase has taken place (e.g. a government making up for lost time having initially accepted the previous government's spending constraints, increased military spending, increased spending on health and education). Then, an evaluation of such an increase should follow.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- the public sector
- the economic background through the period in question
- types of government spending

Developing a response to the question:

- the impact on AD
- the multiplier effect
- the possibility of crowding out
- the potential for higher taxes
- the need for higher taxes
- whether benefiting both actual and potential growth
- the danger of inflation
- the boost to consumer spending and the potential impact on the current account
- the impact on employment
- nationalisation
- merit/public goods provision
- income distribution

Evaluation:

- the ability of the economy to absorb such an increase in public spending
- the trends in the economic cycle during this period of increased spending
- the nature of the spending taking place

STEMUP.CO.UK

- the impact on the budget deficit and National Debt
- the impact on UK/EU fiscal rules
- the possible significance of government action of this nature when crises loom, e.g. the credit crunch and the need for stabilisation of the financial sector and the whole economy

Also give credit for:

- relevant use of evidence and examples
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 25 MARKS

STEMUP.CO.UK

5 (a) Explain the factors which help determine the exchange rate of a currency. *(15 marks)*

For candidates who:

define exchange rates and/or make other relevant comments, eg appreciation/depreciation, reference to exchange rate systems, a reference to the basic importance of supply and demand **Up to 2 marks per point to a maximum of 4 marks**

explain relevant determining factors, eg

- trade flows (1 mark) whereby overseas demand for a country's exports creates a demand for its currency (1 mark) in order to pay for these goods/services (1 mark) while the country's demand for imports causes a selling of domestic currency to buy foreign currencies (1 mark) and it will be the relative significance of exports in relation to imports which determines the impact on the exchange rate (all other things being equal) (1 mark)
- the type of exchange rate system and hence whether or not government intervention plays a part (candidates may only deal with government intervention without mentioning systems and this is quite acceptable)
- investment flows
- speculation/expectations/confidence
- interest rates
- the condition of the domestic macroeconomy, eg inflation and its impact on competitiveness
- supply-side influences on competitiveness, such as productivity, and how this relates to similar developments in other country **Up to 5 marks per determinant explained (1 mark for identification and up to 4 further marks for explanation)**

Reward diagrams as long as they refer specifically to, and aid the explanation of, a determinant rather than simply duplicating any earlier use of supply and demand diagrams in the introduction for which credit has already been given.

Award up to 2 marks per relevant diagram (1 mark for labelling, 1 mark for the information shown). Up to 4 marks per diagram are possible for a more complex diagram (as above but a further 2 marks possible for the greater amount of information provided, e.g. intervention buying of a currency). A maximum of 6 marks can be awarded for diagrams.

MAXIMUM FOR PART (a): 15 MARKS

STEMUP.CO.UK

5 (b) In a floating exchange rate system, a currency may be subject to frequent fluctuations in its external value.

Discuss the possible economic consequences of such fluctuations for the achievement of a country's macroeconomic objectives. *(25 marks)*

It is hoped that candidates will be able to make some distinction between fixed and floating exchange rates, go on to show some understanding of what might cause fluctuations (which may or may not duplicate something included in part (a)), show an understanding of the term 'macroeconomic objectives', before relating the two issues in an evaluative discussion.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score more than **15 marks**.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and/or other issues in the time available.

Issues and areas for discussion include:

Introductory:

- a floating exchange rate system
- floating v fixed
- the nature of macroeconomic objectives
- managed flexibility of the exchange rate

Developing a response to the question:

- the significance of any trend in the exchange rate, i.e. whether tending towards appreciation or depreciation over time
- the exchange rate and competitiveness impacting on export/import performance and hence the current account
- the impact on prices
- the impact on business confidence and hence investment
- the impact on employment
- the contribution fluctuations make to economic growth performance

Evaluation:

- the degree of fluctuation
- the frequency/predictability of fluctuations
- the duration of such fluctuations
- the possible relevance of what is causing those fluctuations
- the ability to prevent or control them
- the degree of instability/stability elsewhere in the economy
- whether or not these fluctuations are the only reason for government objectives not being achieved or are only one of a number of factors

STEMUP.CO.UK

Also give credit for:

- relevant use of evidence and examples
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 25 MARKS

STEMUP.CO.UK

General Certificate of Education
June 2008
Advanced Level Examination

ECONOMICS **ECN6**

Unit 6 Government Policy, the National and International Economy

Friday 13 June 2008 9.00 am to 10.30 am

For this paper you must have:
- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use black ink or black ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice
- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

STEMUP.CO.UK

SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 INFLATION

Study **Extracts A**, **B and C**, and then answer **all** parts of Question 1 which follows.

Extract A: **The annual % rate of UK inflation: Consumer Price Index (CPI) and Retail Price Index (RPI), 2000 – 2006**

	2000	2001	2002	2003	2004	2005	2006
CPI	0.8	1.2	1.3	1.4	1.3	2.1	2.3
RPI	3.0	1.8	1.7	2.9	3.0	2.8	3.2

Source: *www.statistics.gov.uk*, accessed on 21 December 2006

Extract B: Friedman is dead but what about inflation?

Milton Friedman, an American economist who died in 2006, is perhaps best remembered for arguing that inflation is always and everywhere a monetary phenomenon in the sense that it occurs when the quantity of money in the economy grows more rapidly than output. The increase in aggregate demand (AD), which the increase in the money supply causes, can potentially be inflationary unless there is an adequate supply-side response.

By emphasising the importance of money to inflation, Friedman revived interest in the Quantity Theory of Money. This predicted a direct relationship between changes in the money supply and changes in the price level. Friedman believed that, by changing people's expectations, growth in the money supply led to higher prices. For example, if workers expected inflation to accelerate as money supply grew, they would submit potentially inflationary higher pay claims to try to maintain their real incomes.

In common with many other economists, Friedman argued that low inflation is vital for sustained economic success, in that it will help to keep interest rates low, maintain consumer and business confidence, and allow an economy's competitiveness to improve in global markets. In contrast, accelerating inflation can have damaging economic consequences. For example, in the long term, higher unemployment is likely, affecting both the economy and individuals. Unemployment may lower average incomes, and living standards in general can easily deteriorate. On the other hand, higher unemployment may help restore low inflation.

Certainly, for Friedman, money never lost its importance. He may be dead but long live the theory.

Source: adapted from an article by NIALL FERGUSON, *Sunday Telegraph*, 19 November 2006

STEMUP.CO.UK

Extract C: The failure of monetarism

Extract C has been removed due to third-party copyright constraints.

It was adapted from an article in the Guardian on 20 November 2006.

Source: adapted from an article by LARRY ELLIOTT, *The Guardian*, 20 November 2006

Question 1

1 (a) Using **Extract A,** compare the CPI and RPI measures of UK inflation for the period 2000 to 2006. *(4 marks)*

(b) **Extract B** (lines 12–13) suggests that 'low inflation is vital for sustained economic success'. Explain **two** economic benefits of low inflation for an economy. *(6 marks)*

(c) **Extract B** (lines 15–17) argues that, with accelerating inflation, 'higher unemployment is likely, affecting both the economy and individuals'. Analyse **three** possible economic effects of higher unemployment. *(10 marks)*

(d) Using the data and your economic knowledge, discuss the extent to which increases in the money supply may increase the rate of inflation in an economy. *(30 marks)*

Turn over for the next question

STEMUP.CO.UK

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

2 (a) Explain the economic reasons for government spending. *(20 marks)*

(b) In 2006, UK government spending accounted for 41% of GDP and was predicted to grow further.

Evaluate the possible consequences for the UK economy if this further growth were to occur. *(30 marks)*

3 (a) Explain the possible costs **and** benefits for an economy arising from its involvement in international trade. *(20 marks)*

(b) The enlargement of the European Union (EU) to include such countries as Poland, Bulgaria and Romania brought the EU population in 2007 to over 450 million and provided new opportunities for growth and jobs for all other member countries.

Assess the possible consequences for UK macroeconomic performance of EU enlargement. *(30 marks)*

4 (a) Explain how a currency's value against other currencies might be determined. *(20 marks)*

(b) Assume that the value of the pound sterling rises significantly against other major currencies.

Evaluate the extent to which this might have an impact on UK economic growth. *(30 marks)*

END OF QUESTIONS

ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS.

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future papers if notified.

Extract A: Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.
Extract B: © Telegraph Group Limited (2006)
Extract C: © Guardian News & Media Ltd 2006

Copyright © 2008 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version: 1.0: 07/08

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Economics 6141

ECN6: Government Policy, the National and International Economy

Mark Scheme

2008 examination – June series

STEMUP.CO.UK

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

Copyright © 2008 AQA and its licensors. All rights reserved.

COPYRIGHT
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX
Dr Michael Cresswell Director General

STEMUP.CO.UK

Advanced Level Economics

June 2008 **ECN6**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 5. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

STEMUP.CO.UK

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary. **0 to 6 marks** *(Mid-Point: 3 marks)*

Level 2

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately. **7 to 12 marks** *(Mid-Point: 10 marks)*

Level 3

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.

13 to 20 marks *(Mid-Point: 17 marks)*

Level 4

Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.

21 to 26 marks *(Mid-Point: 24 marks)*

Level 5

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision. **27 to 30 marks** *(Mid-Point: 29 marks)*

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
(ii) use of specialist vocabulary, where appropriate;
(iii) legibility of handwriting;
(iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

STEMUP.CO.UK

1 INFLATION

1(a)	Using **Extract A,** compare the CPI and RPI measures of UK inflation for the period 2000 to 2006. *(4 marks)*

Award one mark for each valid point made and one mark for the supporting reference to the data. Points might include:

- the range of inflation values is the same for both measures, i.e. 1.5%
- the CPI figures are always lower than the RPI values
- the RPI measure is never lower than 1.7% (2002) whereas the CPI measure falls as low as 0.8% (2000)
- for three of the seven years the RPI is at 3% or over, whereas the highest for the CPI is 2.3% (2006)
- the average inflation over the period on the CPI measure is 1.5%, the RPI, 2.6%
- after 2003, the RPI steadies whereas the CPI rose quite sharply in 2005
- the differential between the two measures changes over time, from a significant differential of 2.2% points in 2000 but only 0.4% points in 2002, before widening to 0.9% points in 2006

A maximum of **1 mark** may be awarded if the candidate simply trawls through the data with no attempt at comparison.

A maximum of **2 marks** may be awarded if there is no use of statistics.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

MAXIMUM FOR PART (a): 4 MARKS

STEMUP.CO.UK

1(b) **Extract B** (lines 12-13) suggests that 'low inflation is vital for sustained economic success'. Explain **two** economic benefits of low inflation for an economy. *(6 marks)*

For candidates who:

define inflation **1 mark**

comment on the phrase "sustained economic success" **1 mark**

explain economic benefits, eg:

- international competitiveness may improve (1 mark), helping to improve export performance (1 mark), perhaps making imports less price-attractive (1 mark), and so bringing an improvement to the balance of payments on current account (1 mark)

- low inflation may facilitate a 'cheap money policy', i.e. low interest rates

- maintains/improves business confidence leading to increased investment

- maintains/improves consumer confidence leading to higher consumer demand for goods and services

- reduced expectations of future inflation

- lower wage demands

- an important foundation stone for sustained economic growth

up to 4 marks per benefit explained

Reward use of diagrams: up to **2 marks** per relevant diagram (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **3 marks**

Reward references to the UK economy

Where a candidate includes more than two benefits, award marks to the two strongest explanations.

Award a maximum of **5 marks** if only one benefit is explained.

MAXIMUM FOR PART (b): 6 MARKS

STEMUP.CO.UK

1 (c) **Extract B** (lines 15-17) argues that, with accelerating inflation, 'higher unemployment is likely, affecting both the economy and individuals'. Analyse **three** possible economic effects of higher unemployment. *(10 marks)*

Candidates might develop the leads given in Extract B.

Issues and areas for discussion include:

- recent UK unemployment
- types of unemployment likely to be experienced

for the economy:

- the impact on AD
- economic growth
- possible benefits for inflation via lower wage demands/less consumer spending
- Phillips curve analysis
- consequent benefits for competitiveness
- welfare spending and implications for other types of government spending
- tax revenue
- possible need for higher government borrowing

for individuals:

- the level of income
- general living standards
- lower morale impacting on worker performance
- individuals becoming confined to the periphery of the labour market or ceasing to job search altogether
- mobility – occupational (with implications for re-training) and geographical
- long term implications regarding savings and pensions

LEVEL 1
The candidate has copied from the extract and/or develops something relevant only with extreme brevity **1 to 3 marks**

LEVEL 2
For low Level 2 (4-5 marks) at least **one** economic effect is analysed with reasonable clarity and some use of economic terminology. For high Level 2 (6-7 marks) at least **two** economic effects are analysed. Marks at the top of Level 2 can be awarded even if the candidate confines himself/herself to either the effects on the economy or the effects on individuals **4 to 7 marks**

LEVEL 3
Three effects are well analysed with clarity and good use of economic terminology. At the top of the mark band, reference to both the effects on the economy and on individuals might be seen although **good quality** analysis of **either** 3 effects on the economy **or** 3 effects on the individual could attract top marks **8 to 10 marks**

MAXIMUM FOR PART (c): 10 MARKS

STEMUP.CO.UK

1 (d) Using the data and your economic knowledge, discuss the extent to which increases in the money supply may increase the rate of inflation in an economy. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety. **Examiners should not expect more than an outline knowledge and understanding of the Quantity Theory of Money or of monetarism in candidates' answers.**

To achieve **Level 4,** at least two issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Where there is no **explicit** reference to the data, award a maximum of **24 marks.**

Evaluation could be in terms of: the fact that it is always likely to be difficult to isolate a specific cause of inflation in highly complex economies; the difficulty of defining money supply and isolate those components which past experience suggests may have the greatest bearing on inflation; the ability to *control* money supply is a key issue; whether or not the increase in money supply is a one-off or sustained over a period of time.

Issues and areas for discussion:

- types of inflation
- the concept of 'money supply'
- the UK record on inflation
- the argument that all causes of inflation have monetary origins
- aggregate demand (AD)
- the potential impact of money supply changes on prices
- the Quantity Theory of Money/the Equation of Exchange
- monetarism
- expectations
- the impact of exchange rate movements
- wage demands
- the Phillips curve
- the impact of productivity trends
- other supply-side issues and their relevance to inflation such as the impact of changes in technology
- the impact of globalisation
- the impact of the 'China factor'
- the impact of increased labour supply from the newer members of the EU

Also give credit for:

- references to the real world
- use of diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (d): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

STEMUP.CO.UK

2(a)	Explain the economic reasons for government spending.	*(20 marks)*

For candidates who:

Define any relevant term and/or explain government spending, e.g. placing it in the context of fiscal policy, capital v current v transfer spending, examples of spending departments

up to 3 marks per explanation including 1 mark for a definition, up to a maximum of 6 marks

Explain economic reasons for government spending, e.g.

References to redistributive policies might include:

- to redistribute income (1 mark) where tax policy may have failed or been too weak (1 mark), by increasing welfare spending which may include means-tested and universal benefits (2 marks) such as housing benefit and child allowance (1 mark), thus helping to support low-income households or where earned income is zero (2 marks)

- anti-poverty campaigns (the 'War on Want')

References to stability and growth policies might include:

- to help achieve macroeconomic stability

- to support the implementation of supply-side reforms

- to foster economic growth

- job creation policies

References to allocative policies might include:

- the supply of merit goods

- the supply of public goods

- the control of externalities, e.g. the provision of subsidies to private sector investment in 'green' technology

- support for private sector investment, e.g. through the provision of subsidies

- servicing the national debt

1 mark for identification of a reason and up to 6 further marks for its explanation

Reward the use of relevant diagrams and references to the UK economy: up to **2 marks** per relevant diagram (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **6 marks**

Reward references to the UK economy

MAXIMUM FOR PART (a): 20 MARKS

STEMUP.CO.UK

2(b)	In 2006, UK government spending accounted for 41% of GDP and was predicted to grow further. Evaluate the possible consequences for the UK economy if this further growth were to occur. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4,** at least two issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy.

Evaluation could be in terms of: the important issue may not be the level of government spending but the degree of efficiency within it; the nature of the spending; the impact, if any, on the tax burden; the impact, if any, on the level of government borrowing; whether or not, if government spending were cut, the private sector would become more active; that the UK economy in recent years has achieved success because of, or in spite of, that level of public spending, and therefore whether or not it really is an important issue; whether any rise is both in absolute terms and as a percentage of GDP .

Candidates will only have time to discuss some of the issues given below or others which they feel to be relevant to the question.

Issues and areas for discussion:

- criteria for assessing the impact on the UK economy
- the nature of government spending
- the recent growth of government spending
- the main uses of additional expenditure in recent years, i.e. how money is spent
- government spending v private sector spending: the ‘test of the market’ criterion
- taxation
- government borrowing
- real-resource and financial crowding-out
- economic growth
- employment/unemployment
- inflation
- competitiveness and the balance of payments
- the possible impact on business confidence
- the impact of a possible decision by government to reduce the size of the public sector

STEMUP.CO.UK

Also give credit for:

- reference to the UK economy and/or other economies, e.g. other EU members
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR QUESTION 2: 50 MARKS

STEMUP.CO.UK

3(a)	Explain the possible costs **and** benefits for an economy arising from its involvement in international trade. *(20 marks)*

For candidates who:

Define any relevant term and/or explain the concept of international trade, perhaps with reference to recent free trade developments, the significance of protectionism, trade blocs, the UK economy and international trade **up to 3 marks per explanation including 1 mark for a definition, up to a maximum of 6 marks**

Explain the costs for an economy arising from an economy's involvement in international trade, eg:

- the problems caused to an economy's older industries (1 mark), which may have dated capital equipment (1 mark) and greater complacency compared to their counterparts in other countries (1 mark); complacency can mean lower investment in new technology (1 mark), leading to lower productivity (1 mark) which will have implications for competitiveness (1 mark), leading to loss of market share internationally and domestically (1mark)

- problems for 'infant industries'

- unplanned/unwanted changes in an economy's economic structure

- dangers of dumping

- the costs associated with allowing in all types of goods, e.g. demerit goods such as alcohol

- the likelihood of reduced self-sufficiency, including the issue of strategic industries

- the possible impact on jobs

- the possible 'cost' to the balance of payments on current account

- the possible adverse impact on the exchange rate

1 mark for identification of a cost and up to a further 6 marks for the development of that point

Explain the benefits for an economy arising from its involvement in international trade, eg:

- the motivation to exploit any comparative advantage by greater specialisation (2 marks) which means that the economy in question can produce a given quantity of a good or service at a lower opportunity cost than another country (1 mark) as a numerical example can show (3 marks). Greater competitiveness can increase market share and export revenue (1 mark)

- the virtuous spiral effect of increased revenue and profits, reinvestment of profits, leading to further revenue and profits, and so on

- economies of scale

STEMUP.CO.UK

- greater choice/ improved quality of goods/services

- potential benefits to the rate of inflation, with implications for the cost-of-living

- jobs via an export-led multiplier

- a stimulus to R&D and innovation

- potential benefits to aspects of the macroeconomy such as growth and jobs

- potential benefits to the balance of payments on current account

1 mark for identification of a benefit and up to a further 6 marks for the development of that point

Where a candidate selects one cost, for example, job loss, and then cites job creation as a potential benefit of trade, do not credit this point twice. However, do give credit (part or all of the additional 6 marks per cost or benefit) if the explanations of the cost and benefit (to jobs in this example) are obviously different.

Credit relevant points made even if the effect on the economy is not explicitly expressed or is expressed in a vague way.

Reward use of diagrams: reward the use of relevant diagrams and references to the UK economy: up to **2 marks** per relevant diagram (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **6 marks**

Reward references to the UK and/or other economies

Where there is an explanation of costs **or** benefits only, the candidate should be awarded a maximum of **12 marks**

MAXIMUM FOR PART (a): 20 MARKS

STEMUP.CO.UK

3(b) The enlargement of the European Union (EU) to include such countries as Poland, Bulgaria and Romania brought the EU population in 2007 to over 450 million and provided new opportunities for growth and jobs for all other member countries.

Assess the possible consequences for UK macroeconomic performance of EU enlargement. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4,** at least two issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy.

Evaluation could be in terms of: making reference to the population figure and relating it to the significance of income per head; the impact perhaps being determined by the degree of integration to date; whether impact varies between those countries having adopted the euro and those who have not; the strength of the UK economy to face the challenges that enlargement might bring; equally, the strength of the UK economy to withstand the problems that enlargement might bring; the impact on the UK might be limited until the arrival of a single market in services; the impact of immigration; the possible relevance of the lack of development of the economies of the newer members.

Candidates will only have time to discuss some of the issues given below or others which they feel to be relevant to the question.

Issues and areas for discussion:

- macroeconomic performance
- economic growth
- inflation
- jobs
- balance of payments
- the issue of competitiveness
- the degree of EU integration
- the Single European Market (SEM)
- the Single European Currency (SEC)
- migration trends
- outsourcing
- the dynamism of entrepreneurship
- relocation of businesses
- investment
- the extent and nature of competition
- economies of scale

STEMUP.CO.UK

- the UK as a service-based economy
- the possible further decline of manufacturing in the UK and implications for GDP
- productivity and the productivity gap
- the issue placed into the wider context of globalisation
- the EU as a trading bloc
- the changing pattern of trade

Also give credit for:

- reference to the UK economy and/or other economies, e.g. other EU members
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR QUESTION 2: 50 MARKS

STEMUP.CO.UK

4(a) Explain how a currency's value against other currencies might be determined. *(20 marks)*

For candidates who:

Define and/or explain various aspects of exchange rates, e.g. the concept of 'exchange rate' itself, briefly outline exchange rate systems, refer to the relevance of basic supply and demand analysis **up to 3 marks per point explained including 1 mark for a definition, up to a maximum of 6 marks**

For candidates who explain or compare in greater depth the various exchange rate systems **up to 6 marks**

Explain determinants of exchange rates, eg:

- trade flows (1 mark), so that, for example, increased overseas spending on UK exports creates a higher demand for £s (1 mark). If at the same time UK spending on imports fell, the supply of £s would fall (1 mark). This higher demand and reduced supply, other things being equal, would lead to upward pressure on the exchange rate (1 mark), and hence a new higher equilibrium rate of exchange (1 mark), illustrated with a supply and demand diagram (2 marks).

- investment flows

- speculation

- confidence and expectations

- interest rate movements

- direct official intervention

- domestic economic conditions, e.g. inflation reducing competitiveness of UK exports

1 mark for identification of a determinant and up to a further 6 marks for the development of that point

Reward the use of relevant diagrams: up to **2 marks** per basic supply and demand (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct); up to **4 marks** per diagram for something more complex (as above, but **2 further marks** for the greater amount of information provided on the graph), e.g. intervention buying and selling, to a maximum of **8 marks** in total for diagrams.

Reward references to the UK and/or other economies

Where the candidate only makes reference to one determinant, albeit very well explained, he/she should be limited to a maximum of **12 marks.**

MAXIMUM FOR PART (a): 20 MARKS

STEMUP.CO.UK

4(b) Assume that the value of the pound sterling rises significantly against other major currencies.

Evaluate the extent to which this might have an impact on UK economic growth.
(30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4,** at least two issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy.

Evaluation could be in terms of: whether or not the appreciation occurs against **all** other major currencies; the scope for developing markets in those areas whose currencies have not weakened against the £; a discussion of 'significantly'; the duration of the appreciation; the ability/willingness of exporters to respond positively to the appreciation; the other side of the coin is that imports will be cheaper, with possible benefits to UK inflation; other conditions for economic growth might more than compensate for the appreciation; price competitiveness v non-price competitiveness.

Candidates will only have time to discuss some of the issues given below or others which they feel to be relevant to the question.

Issues and areas for discussion:

- the nature of economic growth
- the various possible causes of economic growth
- the impact of a strong £ on exports
- the impact of a stronger £ on imports
- the benefits of cheap imports of materials for industry with potential benefits for inflation
- the impact on UK manufacturing of cheap imports
- higher unemployment affecting AD
- higher productivity as a response to the impact of dearer exports caused by appreciation
- the potential stimulus to other supply-side factors helping to counteract the impact of appreciation
- the extent of appreciation in currency markets
- whether or not the appreciation is short-lived or long term
- the significance of non-price competitiveness in determining export performance
- the significance of elasticity conditions

STEMUP.CO.UK

Also give credit for:

- reference to the UK and/or other economies
- diagrams
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR QUESTION 4: 50 MARKS

STEMUP.CO.UK

General Certificate of Education
January 2008
Advanced Level Examination

ECONOMICS **ECN6**
Unit 6 Government Policy, the National and International Economy

Tuesday 29 January 2008 9.00 am to 10.30 am

For this paper you must have:
- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice
- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

STEMUP.CO.UK

SECTION A

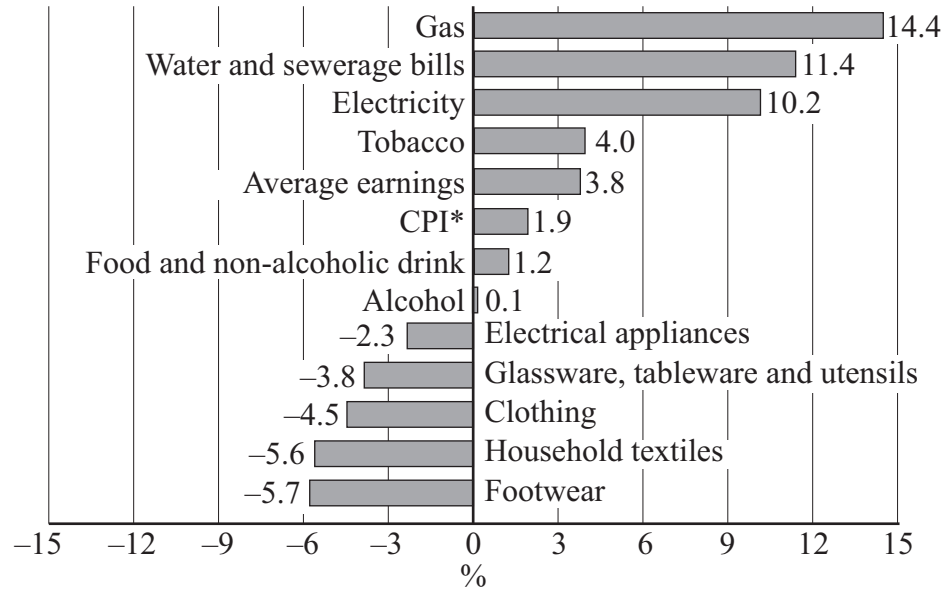
Answer **all** parts of this question.

Total for this question: 50 marks

1 INFLATION

Study **Extracts A, B, C and D,** and then answer **all** parts of Question 1 which follows.

Extract A: Earnings and selected price changes (%), January 2005 to January 2006



Gas, water and electricity are examples of utilities.
* CPI is the Consumer Price Index.

Source: *Daily Telegraph*, 25 February 2006

Extract B: From slippers to champagne

Changes in the CPI (Consumer Price Index) and the RPI (Retail Price Index) measure changes in the cost of a representative 'basket' of goods and services bought by consumers within the UK. The 'basket' changes over time. For example, MP3 players and champagne have recently replaced CD players and slippers.

Households spend more on some categories of expenditure, such as fuel, than on others, such as postal services. We would therefore expect price increases for certain items to have a bigger effect on the overall change in the cost of the 'basket' than others. Each item in the index is weighted to reflect the proportion of household expenditure spent on it.

Source: adapted from an article by DAVID BARAN, 'CPI and RPI: updating weights for 2006', *www.statistics.gov.uk*, accessed on 30 May 2006

STEMUP.CO.UK

Extract C: Is inflation still dead?

My book, *The Death of Inflation*, published ten years ago, suggested that we were entering a new world in which inflation, overall, would be extremely low and that, from time to time, the price level might fall. It was predicted that the information revolution would allow the widespread distribution of information about prices, and the increased ease of transactions would sharpen competition. People's expectations of inflation would subside. Moreover, the dynamic part of the globalisation effect, namely the realisation by both workers and companies that they are now in a global marketplace, is still increasing in significance. Central banks could, and would, head off any threat to low inflation. So, is inflation still dead? The answer is 'yes'.

Source: adapted from an article by ROGER BOOTLE, *Sunday Telegraph*, 28 May 2006

Extract D: Inflation: a threat to stability

High inflation was once the greatest threat to economic stability in the UK. It has at times caused a wage–price spiral and led to high expectations of future inflation. For these reasons, government policy initiatives have been required, both to manage demand more effectively and to improve the economy's supply side. It has also been past recessions, with the consequent mass unemployment and slump in demand, that have forced a change in focus towards achieving and maintaining low inflation and, crucially, low expectations of future inflation.

Source: adapted from GARY COOK, *Economics Update 2006*, Hidcote Press, 2006

Question 1

(a) Using **Extract A**, compare the changes in the prices of utilities with the other price changes shown for the period January 2005 to January 2006. *(4 marks)*

(b) **Extract C** (line 2) refers to 'a new world in which inflation, overall, would be extremely low'. Explain **two** possible causes of a low rate of inflation. *(6 marks)*

(c) **Extract B** is concerned with the use of indices to measure inflation. Analyse the way in which inflation indices, such as the CPI and the RPI, are constructed **and** their accuracy as measures of inflation for every household in an economy over time. *(10 marks)*

(d) According to the Office for National Statistics (ONS) the annual average rate of UK inflation, as measured by the CPI, for the period 2001 to 2006 was 1.6%.

Evaluate the significance of this low rate of inflation for the performance of the UK economy in recent years. *(30 marks)*

Turn over for the next question

STEMUP.CO.UK

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

2 (a) Explain the concept of economic growth **and** how it can affect the standard of living of a country. *(20 marks)*

(b) Evaluate the extent to which government economic policy may have influenced the rate of growth of the UK economy in recent years. *(30 marks)*

3 (a) Explain how fiscal policy might be used to achieve government objectives, such as low unemployment, higher productivity and environmental protection. *(20 marks)*

(b) In recent years, the 'Golden Rule' in UK fiscal policy has required a balanced budget to be achieved over the economic cycle. Evaluate the possible macroeconomic consequences for the UK economy of such a requirement. *(30 marks)*

4 (a) Explain the factors which may help to determine an economy's export performance. *(20 marks)*

(b) Evaluate the economic consequences for members of a customs union, such as the EU, of the protectionist policies it adopts towards the rest of the world. *(30 marks)*

END OF QUESTIONS

ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future papers if notified.

Extract A: © Telegraph Group Limited (2006)
Extract B: Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.
Extract C: © Telegraph Group Limited (2006)
Question 4(b): Quotation taken from an article by Maurice Chittenden and Nicola Smith in The Sunday Times, London

Copyright © 2008 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1.0:02/08

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Economics 6141

ECN6 Government Policy, the National and International Economy

Mark Scheme

2008 examination - January series

STEMUP.CO.UK

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

Copyright © 2008 AQA and its licensors. All rights reserved.

COPYRIGHT
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX
Dr Michael Cresswell Director General

STEMUP.CO.UK

Advanced Level Economics

January 2008 **ECN6**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 5. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

STEMUP.CO.UK

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks *(Mid-Point: 3 marks)*

Level 2

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

7 to 12 marks *(Mid-Point: 10 marks)*

Level 3

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.

13 to 20 marks *(Mid-Point: 17 marks)*

Level 4

Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.

21 to 26 marks *(Mid-Point: 24 marks)*

Level 5

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision. **27 to 30 marks** *(Mid-Point: 29 marks)*

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
(ii) use of specialist vocabulary, where appropriate;
(iii) legibility of handwriting;
(iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

STEMUP.CO.UK

SECTION A

1 (a) Using **Extract A**, compare the changes in the prices of utilities with the other price changes shown for the period January 2005 to January 2006. *(4 marks)*

Award up to 2 marks for each point (one mark for identification and one mark for reference to the data). For example:

- the utilities show the greatest price changes of all the goods and services shown
- the price changes for the utilities were all positive, but mostly negative for the other goods shown
- the gas utility shows the greatest price increase of all the goods and services shown, footwear the greatest price reduction
- of all the data, the price changes of the utilities show the greatest contrasts with the CPI, with food and non-alcoholic drink the nearest to it
- The percentage point range between the gas utility (with the highest price increase) and footwear (with the biggest price fall) is 20 percentage points

Award up to **2 marks** if there is no use of statistics.

A maximum of **1 mark** may be awarded if a candidate simply trawls through the data without any attempt at comparison.

Award up to **3 marks** where there is evidence of an overview having been taken with supporting data, even though part of the answer gives an impression of a trawl through the data.

MAXIMUM FOR PART (a): 4 MARKS

STEMUP.CO.UK

1(b) **Extract C** (line 2) refers to 'a new world in which inflation, overall, would be extremely low'. Explain **two** possible causes of a low rate of inflation. *(6 marks)*

For candidates who:

define inflation and/or a 'low rate of inflation' **1 mark**

explain causes of a low rate of inflation, eg:

- the impact of globalisation (1 mark), making the need for price competitiveness more urgent (1 mark), by cutting costs and raising productivity (1 mark), to be able to improve export performance and effectively challenge imports (1 mark)

- the impact of technology on production processes
-the information revolution
- flexibility in the labour market
- effective demand management
- a sustained improvement in labour productivity
- falling expectations of future inflation
- cheap manufactured goods from China and similar low-cost economies
- the 'weightless' economy **up to 4 marks per cause explained**

up to 2 marks per diagram (axes and curves correctly labelled (1), appropriate information according to candidate's explanation (1)), to a maximum of 3 marks

MAXIMUM FOR PART (b): 6 MARKS

STEMUP.CO.UK

1(c) **Extract B** is concerned with the use of indices to measure inflation. Analyse the way in which inflation indices, such as the CPI and RPI, are constructed **and** their accuracy as measures of inflation for every household in an economy over time. *(10 marks)*

Issues and areas for discussion include:

- a definition of inflation
- a definition of an index, e.g. a weighted average of price changes based on average levels of spending on a wide range of consumer goods and services
- index numbers and base years
- CPI and RPI, perhaps with some comparison of the two
- Pensioner prices index, RPIX, RPIY
- the notion of a 'basket' of goods and services
- the concept of the 'average family'
- the system of weighted averages
- the Family Expenditure Survey
- price relatives
- index number formula: $\frac{\text{(price relative x weights)}}{\text{Weights}}$

- the difficulty of determining the 'average' family
- the difficulty of deciding on an appropriate 'basket' of goods and services
- the high-income household
- the retired person's expenditure perhaps weighted towards necessities such as heating, lighting and food
- the spending habits of some households are in some contrast to any notion of 'average', e.g. the heavy smoker, high housing costs (RPI)

Level 1
Candidates simply copy from the extract and show little, if any, knowledge of indices beyond the material in the extract. **1 to 3 marks**

Level 2
Some awareness is shown of inflation indices beyond the information outlined in the extract. At the lower end of the mark range the candidate may be able to elaborate on such basic principles as the 'basket' and weights but knowledge may be incomplete or inaccurate at times. A brief, vague reference is made to one aspect of the 'accuracy' issue. For the higher marks, some attempt is made to explain the process of constructing an index with some use of economic terminology, with at least one aspect of the 'accuracy' issue well considered. **4 to 7 marks**

Level 3
A competent analysis of the various aspects of the construction of indices is displayed, with sound use of appropriate terminology and good consideration of **two** aspects of the 'accuracy' issue. There may be some attempt to distinguish the RPI from the CPI, to provide a numerical example to aid the explanation of construction, and to refer to the inflation experiences of the UK economy, but not all of these would need to be in evidence in order to a award a mark within this level.

8 to 10 marks

MAXIMUM FOR PART (c): 10 MARKS

STEMUP.CO.UK

1(d) According to the Office for National Statistics (ONS) the annual average rate of UK inflation, as measured by the CPI, for the period 2001 to 2006 was 1.6%. Evaluate the significance of this low rate of inflation for the performance of the UK economy in recent years. *(30 marks)*

Candidates may choose to put this low rate of inflation into historical context before discussing how we might gauge performance of the UK economy and go on to analyse and evaluate the significance of the low rate of inflation in the context of other contributory factors.

To score more than **24 marks,** candidates must make reference to the UK economy**.**

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could include the comment that the significance may depend on how it compares to the rates of inflation amongst our trading partners; whether it is likely to persist; how it has been achieved; how immune it is from demand-side or supply-side shocks; whether it serves to complement other aspects of the economy, e.g. an improving productivity trend, good non-price competitiveness, a favourable exchange rate.

Issues and areas for discussion include:

It is anticipated that candidates would only have time to develop a discussion of a few of the issues below or others of their choice.

- a definition of inflation
- CPI/RPI comparison (the RPI likely to paint a less favourable picture)
- the criteria by which the 'performance of the UK economy' is measured
- low inflation and economic growth
- low inflation and increased employment and wage-earnings trends
- low inflation and the balance of payments
- avoidance of instability leading to recession
- lower expectations
- how it has been achieved: demand-side and supply-side references
- the role of the MPC and the inflation target
- international comparisons
- linkages with non-price competitiveness
- whether the 'cost' of achieving low inflation has been too high, e.g. damage to manufacturing
- the prospect of deflation
- potential threats to price stability
- the relationship to other factors determining success, e.g. resource mobility/ flexibility, international economic conditions
- the experience of the UK economy
- UK inflation in the context of international comparison
- temporary or permanent, degree of immunity from shocks
- its complementarity with other aspects of the macroeconomy

STEMUP.CO.UK

Also give credit for:

- reference to the data
- a final judgement from the preceding discussion
- use of diagrams to aid the analysis

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (d): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

STEMUP.CO.UK

2(a) Explain the concept of economic growth **and** how it can affect the standard of living of a country. *(20 marks)*

For candidates who:

define economic growth **up to 2 marks**

explain the distinction between actual growth and trend growth and/or any other relevant discussion **up to 4 marks per point explained**

use diagrams to further explain the concept
up to 2 marks per diagram (axes and curves correctly labelled (1), appropriate information according to candidate's explanation (1)), to a maximum of 6 marks

explain the concept of 'the standard of living' **up to 4 marks**

relate economic growth to the standard of living, eg:
- referring to income per head and material well-being;
- linking economic growth to the development of the economy (for example, a welfare state, a health service, transport and communications infra-structure);
- economic growth and full employment
- environmental damage;
- quality of life issues. **up to 6 marks per factor explained**

Reward references to the UK economy.

Award a maximum of **10 marks** if the candidate does not go beyond the explanation of the concept to discuss the standard of living or refers only to the living standards aspect of the question.

MAXIMUM FOR PART (a): 20 MARKS

STEMUP.CO.UK

2(b)	Evaluate the extent to which government economic policy may have influenced the rate of growth of the UK economy in recent years. *(30 marks)*

It is anticipated that candidates will review the ways in which governments can help influence the rate of growth and then discuss other relevant factors before arriving at a final conclusion on the issue.

To score more than **24 marks,** candidates must make reference to the UK economy**.**

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could include a discussion of government possibly being in a no-win situation as objectives come into conflict, i.e. that a policy initially favouring growth then begins to damage growth prospects; an appraisal of non-government factors which have promoted growth; that any policy may become irrelevant if international economic conditions deteriorate.

Issues and areas for discussion:

It is anticipated that candidates would only have time to develop a discussion of a few of the issues below or others of their choice.

- concept of the rate of growth
- the Keynesian view (e.g. the authorities' management of AD may help to achieve economic growth to the extent thought desirable) v Classical (e.g. government intervention reduces competitiveness and so slows the growth process)
- supply-side policies
- environmental issues as a constraint on growth
- the priority given to the control of inflation
- the role of the MPC
- the possible impact of the expansion of the public sector: expansion of AD v the potential for inflation and crowding out
- promotion of globalisation
- government encouragement to inward investment
- possible beneficial effects of overseas development aid
- economic migration
- infra-structure development in its widest sense
- exchange rate policy
- boom-bust threat
- a possible no-win situation for the government as objectives are seen to conflict
- non-government factors influencing growth
- the relevance of international economic conditions

Also give credit for:

- references to other economies
- a final judgement from the preceding discussion
- use of diagrams to aid the analysis

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

STEMUP.CO.UK

3(a) Explain how fiscal policy might be used to achieve government objectives, such as low unemployment, higher productivity and environmental protection. *(20 marks)*

For candidates who:

define fiscal policy **up to 3 marks**

explain the general meaning of 'government objectives', e.g. making markets work better, improving public service performance, influencing the macroeconomy. Do not credit the simple statement of low unemployment, higher productivity and environmental protection.
up to 3 marks

explain how public expenditure can help achieve government objectives, eg:
- labour market policies to increase mobility/flexibility/productivity
- provision of merit goods to enhance positive externalities
- provision of public goods to ensure supply where markets do not exist
- welfare expansion to help achieve income redistribution/reduction of poverty
- education and training helping to improve labour productivity
- by initiating a multiplier effect, AD can be raised, so helping employment
- subsidies to encourage 'greener' technology

up to 4 marks per factor explained to a maximum of 12

explain how taxation can help achieve government objectives, eg:
- changes to direct taxation to influence the work/leisure decision or enterprise issues
- changes to influence disposable income and hence spending power
- changes to indirect taxation to alter the pattern of consumption
- targeted tax allowances to encourage sectoral investment
- indirect tax to help deal with (internalise) negative externalities
- use of taxation to influence activity in individual markets, eg housing and holidays

up to 4 marks per factor explained to a maximum of 12

explain how a given fiscal stance can achieve government objectives, eg:
- a budget surplus to reduce the crowding-out felt in specific sectors and so help increase the private sector contribution to economic performance
- a tighter fiscal policy benefiting interest rate levels helping to boost the mortgage and housing markets, with implications for the macroeconomy
- a deficit/surplus to influence AD and hence unemployment, prices and actual growth

up to 6 marks

use diagrams to help their explanation **up to 2 marks per diagram**
(axes and curves correctly labelled (1), appropriate information according to candidate's explanation (1)), to a maximum of 6 marks

Reward references to the UK economy.

Candidates who deal with only taxation or public expenditure should be limited to **14 marks.**

MAXIMUM FOR PART (a): 20 MARKS

STEMUP.CO.UK

3(b) In recent years, the 'Golden Rule' in UK fiscal policy has required a balanced budget to be achieved over the economic cycle. Evaluate the possible macroeconomic consequences for the UK economy of such a requirement. *(30 marks)*

It is anticipated that candidates will outline the nature of UK fiscal policy and perhaps contrast the consequences of balance with persistent surpluses/deficits.

To score more than **24 marks,** candidates must make reference to the UK economy**.**

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could include a discussion around the fiscal position from which balance was achieved; the significance of how long the strategy persists; the condition of the economy as it is achieved; the significance of any cycle containing years of both deficit and surplus; whether such a policy instils confidence amongst consumers and in the business world or the reverse.

Issues and areas for discussion:

It is anticipated that candidates would only have time to develop a discussion of a few of the issues below or others of their choice.

- fiscal policy outlined
- the nature of an economic cycle
- criteria for assessing macroeconomic consequences
- the Golden Rule
- the overall Code for Fiscal Stability
- the Budget
- the concept of balance and the contrasting situations
- balanced budget multiplier (not required by the A2 specification)
- the perception of balance as a force for economic stability with potential impacts on the private sector and inward investment
- the counter view of the perceived benefits of persistent deficits or surpluses
- potential impact on interest rates
- potential impact on inflation
- how balance is achieved – tax increases and/or public spending cuts
- response from MPC
- impact on AD
- the potential overall impact on the supply side of the economy
- the starting position for the achievement of balance, with the possibility of a new policy providing an economic shock
- the persistence or otherwise of the strategy
- the existing condition of the economy
- how appropriate the policy is in the global context
- the appropriateness of individual years of deficit or surplus as they appear within the cycle
- the impact on consumer and business confidence
- reference to UK experience

STEMUP.CO.UK

Also give credit for:

- reference to other economies
- a final judgement from the preceding discussion
- use of diagrams to aid the analysis

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

STEMUP.CO.UK

4(a) Explain the factors which may help to determine an economy's export performance. *(20 marks)*

For candidates who:

explain 'export performance' (e.g. in value and volume terms) perhaps in the context of the balance of payments on current account **up to 4 marks**

explain factors determining export performance, eg:

- the rate of inflation in an international context
- non-price competitiveness
- the exchange rate
- international economic conditions
- the rate of growth of productivity in an international context
- degree of exploitation of comparative advantage
- extent of protectionism
- government support for the export sector
- within a customs union, the possibility, as in the EU, of the existence and development of a single market and/or a single currency, potentially allowing members to develop their export sectors
- supply-side reforms in general

up to 8 marks per determinant explained

use diagrams to help their explanation

up to 2 marks per diagram (axes and curves correctly labelled (1), appropriate information according to candidate's explanation (1)), to a maximum of 6 marks

Reward references to the UK economy and/or other economies.

MAXIMUM FOR PART (a): 20 MARKS

STEMUP.CO.UK

4(b) 'The tariffs imposed by the EU (European Union) on imports of shoes from the Far East are likely to put £5 on almost every pair of shoes sold for £40 in Britain, but will protect Italian shoemakers.'

Source: © *The Sunday Times,* 9 April 2006

Evaluate the economic consequences for members of a customs union, such as the EU, of the protectionist policies it adopts towards the rest of the world.

(30 marks)

It is anticipated that candidates will answer the question in the context of the EU and be able to analyse and evaluate the consequences of protectionist policies for members of the EU. References to the EU in particular, rather than to customs unions collectively, is not, however, a requirement of a good answer.

To score more than **24 marks,** candidates must show an understanding of the nature of customs unions, rather than just outline the arguments for an against protectionist policies within a discussion of the consequences of such policies.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could include a discussion of how severe the protectionism is, perhaps in an historical context; the extent of retaliation; the importance of external trade to the customs union; that the effects could vary significantly from country to country; the significance of the policies of customs unions elsewhere in the world.

Issues and areas for discussion:

It is anticipated that candidates would only have time to develop a discussion of a few of the issues below or others of their choice.

- the nature of a customs union
- examples of customs unions
- particular reference to the EU as a customs union
- customs unions v free trade areas
- the common external tariff policy of a customs union
- other examples of protectionism, e.g. export subsidies, quotas
- the impact on the cost-of-living
- protectionism as an impediment to the development of comparative advantage
- trade diversion
- trade creation
- the potential for retaliation should the protectionism become more severe
- comparative and absolute advantages
- the impact on economic growth within the customs union and world growth
- the impact on employment
- the impact on the balance of payments
- the impact on the cost of inputs and hence potentially on inflation
- the impact on efficiency
- the infant-industry argument
- inward investment
- the impact on the industrial structure of the EU or on the structure of individual members
- protection against goods and services emanating from 'cheap labour' economies
- dumping

STEMUP.CO.UK

- a tool for influencing the environmental policies of other countries (a Uruguay Round issue), so helping the progress/acceptance of such policies within the customs union in question
- impact on the economic development of other nations and hence maintaining the reliance of LDCs on aid and loans given by the customs union in question rather than trade
- retaliation and the heightened likelihood of trade wars between blocs
- the degree of severity of the protectionist policies
- the importance of external trade to the customs union
- the policies of other customs unions
- the variations in impact across the membership of the customs union
- GATT/WTO

Also give credit for:

- references to the experiences of the UK and/or other members of the EU
- reference to real world customs unions
- a final judgement from the preceding discussion
- use of diagrams to aid the analysis

USE THE LEVELS MARK SCHEME ON PAGES 4 AND 5

MAXIMUM FOR PART (b): 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

STEMUP.CO.UK

General Certificate of Education
June 2007
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

ECONOMICS **ECN6**
Unit 6 Government Policy, the National and International Economy

Tuesday 19 June 2007 1.30 pm to 3.00 pm

For this paper you must have:
- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

Advice
- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

STEMUP.CO.UK

SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 NATURAL DISASTERS

Study **Extracts A, B and C,** and then answer **all** parts of Question 1 which follows.

Extract A: The estimated economic impact on advanced countries of a supply-side shock to oil supplies, 2006-2009*

Extract A is a table of figures.

It has not been reproduced here due to third-party copyright constraints.

Extract B: Will Hurricane Katrina cast a long shadow?

Hurricane Katrina hit the Gulf Coast of the USA in August 2005, causing severe damage and devastating the city of New Orleans. Hurricanes tend to have a fleeting economic impact. In the short run, the disruption caused by a big storm can depress output; over the long term, economic growth is boosted by reconstruction and the consequent multiplier effect. For all their devastating force, natural disasters tend to be economic weaklings.

The potential supply-side shock of Katrina, however, may cast a longer shadow, having an international, rather than just a national, impact. One view is that the shock to oil supplies, for example, could push the US economy into recession. Certainly, the hurricane pounded an area vital to the US oil and gas industry. At the same time, there continues to be soaring global demand for oil. Some nations are showing themselves to be energy-hungry. Stronger speculative activity, as war and acts of terrorism become more prevalent, also helps explain this surge in demand. These pressures have inevitably affected international oil and petrol prices.

Source: adapted from *The Economist*, 3-9 September 2005

STEMUP.CO.UK

Extract C: Hurricane Katrina: a costly disaster?

Extract C is an extract of text.

It has not been reproduced here due to third-party copyright constraints.

Question 1

(a) Using **Extract A**, compare the estimated impact of the supply-side shock on GDP with that on the rate of inflation in advanced countries for the period 2006 to 2009. *(4 marks)*

(b) **Extract B** (lines 8-11) refers to a 'shock to oil supplies' and 'soaring global demand for oil'. With the help of a supply and demand diagram, explain the possible impact of these changes in the oil market on the world price of oil. *(6 marks)*

(c) **Extract C** (lines 8-10) points to possible changes in interest rates in the US economy. Analyse **two** reasons for a reduction in interest rates following a natural disaster such as Hurricane Katrina. *(10 marks)*

(d) **Extract B** (line 7) refers to a 'potential supply-side shock' caused by Hurricane Katrina. Using the data and your economic knowledge, evaluate the possible macroeconomic consequences for advanced countries of shocks of this nature. *(30 marks)*

Turn over for the next question

STEMUP.CO.UK

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

2 (a) Explain why economic growth is regarded as a major macroeconomic objective by governments. *(20 marks)*

(b) Evaluate the view that, in the long run in the UK, the macroeconomic objectives of economic growth, price stability, full employment and a strong balance of payments can be achieved without conflicting with each other. *(30 marks)*

3 (a) Explain how fiscal policy could be used to influence aggregate demand. *(20 marks)*

(b) The UK government decides to bring about a significant shift in the sources of tax revenue from direct taxes, such as income tax, to indirect taxes, such as Value Added Tax (VAT).

Evaluate the potential economic consequences of such a shift in the sources of tax revenue. *(30 marks)*

4 (a) Explain the various determinants of the exchange rate of one currency against other currencies. *(20 marks)*

(b)

Evaluate the possible economic consequences for UK macroeconomic performance of changes in the external value of the pound. *(30 marks)*

END OF QUESTIONS

ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS.

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future papers if notified.

Extract B: © The Economist Newspaper Limited, London (3-9 September 2005)

Copyright © 2007 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1.0: 0607

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Economics

ECN6: Government Policy, the National and International Economy

Mark Scheme

2007 examination - June series

STEMUP.CO.UK

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

Copyright © 2007 AQA and its licensors. All rights reserved.

COPYRIGHT
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX
Dr Michael Cresswell Director General

STEMUP.CO.UK

Advanced Level Economics

June 2007 **ECN6**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 5. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

STEMUP.CO.UK

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

Level 1
Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.
0 to 6 marks (*Mid-Point: 3 marks)*

Level 2
A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.
7 to 12 marks *(Mid-Point: 10 marks)*

Level 3
A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.
13 to 20 marks *(Mid-Point: 17 marks)*

Level 4
Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.
21 to 26 marks *(Mid-Point: 24 marks)*

Level 5
Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.
27 to 30 marks *(Mid-Point: 29 marks)*

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
(ii) use of specialist vocabulary, where appropriate;
(iii) legibility of handwriting;
(iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

STEMUP.CO.UK

Section A

Total for this question: 50 marks

1(a)	Using **Extract A,** compare the estimated impact of the supply-side shock on GDP with that on the rate of inflation in advanced countries for the period 2006 to 2009. *(4 marks)*

Award up to 2 marks for each point (one mark for identification and one mark for reference to the data). For example:

all the estimated changes in levels of GDP are negative while for inflation there is a mixture of negative and positive values

2007/08 were the most significant estimated changes in GDP but this is not the case for the change in the rate of inflation

the worst year for estimated changes in the rate of inflation is 2006, for GDP, 2007 and 2008 (the same change in each year)

the range of values for GDP is 1% and 2.4% for inflation

Any other valid comparison

A maximum of **2 marks** may be awarded if there is no use of statistics or if a candidate confines comparison to only one of the indicators.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

A maximum of **1 mark** may be awarded if a candidate simply trawls through the data with no attempt at a comparison – however award **up to 2 marks** for any valid comparison made for a single year.

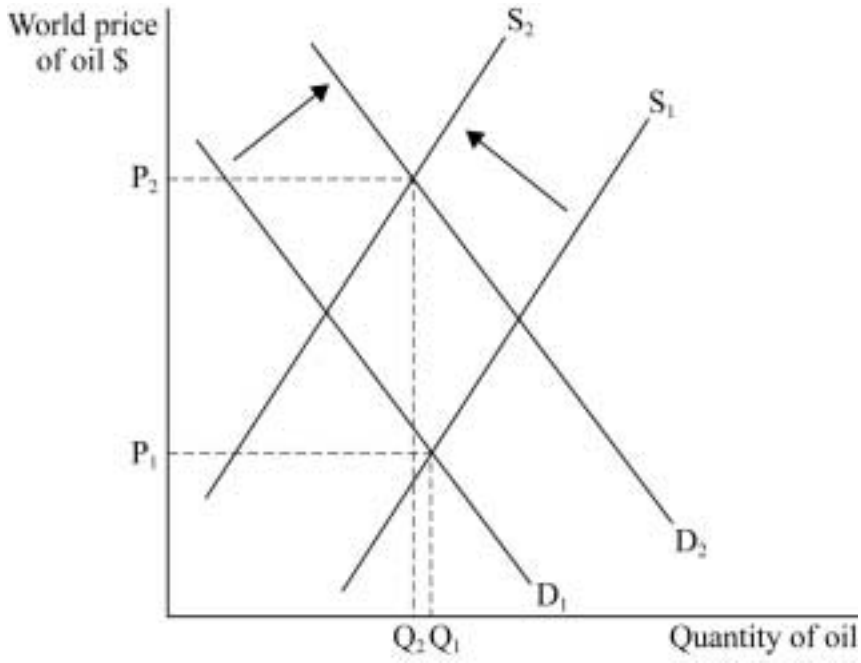
MAXIMUM FOR PART (a) 4 MARKS

STEMUP.CO.UK

1(b)	**Extract B** (lines 8-11) refers to a 'shock to oil supplies' and 'soaring global demand for oil'. With the use of a supply and demand diagram, explain the possible impact of these changes in the oil market on the world price of oil. *(6 marks)*

For candidates who:

draw an appropriate diagram, eg:



A relevant AD/AS diagram would be equally valid

Award up to 4 marks (1 mark for coordinates, 1 mark for labelling, 1 mark per shift of curve shown). However, award a maximum of 1 mark if the information shown in terms of a shift of curve or movement along a curve is incorrect given the likely changes in supply and demand in the oil market.

state that the probable impact will be a rise in the world price of oil	**1 mark**
explain why demand is rising	**1 mark**
explain the nature of the disruption to oil supplies	**1 mark**
refer to elasticity conditions in the oil market	**1 mark**
relate disrupted Gulf oil supplies to total world oil supply	**1 mark**

Award a maximum of **4 marks** if an explanation is offered without a diagram, or a diagram without any explanation.

MAXIMUM FOR PART (b) 6 MARKS

STEMUP.CO.UK

1(c)	**Extract C** (lines 8-10) points to possible changes in interest rates in the US economy. Analyse **two** reasons for a reduction in interest rates following a natural disaster such as Hurricane Katrina. *(10 marks)*

Issues and areas for discussion include:

- definition/explanation of interest rates
- the relationship between a central bank rate, such as UK base rate, and other rates in an economy
- demand-side and supply-side implications

- trends in government borrowing impacting on interest rates
- to influence the exchange rate
- to influence the consumption component of AD
- to influence savings
- to control inflation
- to encourage investment

Candidates should be rewarded for accurate and relevant diagrams to support their answers.

Level 1
The candidate simply copies reasons from **Extract C** with little or no development.
1 to 3 marks

Level 2
A clear explanation is given of at least **one** reason. At the lower end of the mark band, there is some evidence of confusion or the explanation is incomplete or remains at a fairly elementary level. These weaknesses should not be in evidence if marks are awarded at the higher end of the band, where there will also be some evidence of correct use of economic terminology, together with some reference to natural disasters or to Hurricane Katrina specifically or to post-disaster developments. **4 to 7 marks**

Level 3
Two reasons are well analysed in a competently organised answer which shows a comprehensive understanding of the issues. Economic terminology is strongly in evidence, as are references to natural disasters and/or to Hurricane Katrina specifically. There is a clear awareness of the interrelationship between changes in interest rates and the reasons chosen for analysis. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

STEMUP.CO.UK

1(d) **Extract B** (line 7) refers to a 'potential supply-side shock' caused by Hurricane Katrina. Using the data and your economic knowledge, evaluate the possible macroeconomic consequences for advanced countries of shocks of this nature. *(30 marks)*

It is anticipated that candidates will clarify at the outset what might be meant by supply-side shocks and how we might gauge macroeconomic consequences, before analysing and evaluating at least some of these consequences.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the data.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could consist of suggesting that there is a possibility that consequences remain localised or at least not more than national; the greater likelihood that advanced countries can 'absorb' any shock more easily than developing countries; reference to the nature and duration of the shock; the limitations of making generalisations for the advanced world as a whole; that the impact may depend on the previous economic conditions of the countries now affected, or by the frequency of shocks.

Issues and areas for discussion include:

- possible supply-side shocks
- a review of macroeconomic indicators
- potentially contrasting experiences of advanced countries
- distortion of the trade cycle
- significance of government responses
- disruption to energy supplies
- disruption to trade flows
- disruption to investment flows
- the potential for inflation
- the impact on economic growth
- the impact on the balance of payments
- exchange rate changes
- interest rate changes
- the economic costs/benefits of any necessary reconstruction
- the accelerator/multiplier processes (accelerator not in the specification however)
- employment/unemployment
- the potentially limited impact of any one shock
- the ability to 'absorb' shocks
- degree of stability/instability prior to the shock occurring
- the frequency/infrequency of shocks occurring
- the likelihood of significant exceptions to any generalisations made
- AD/AS analysis

STEMUP.CO.UK

Other equally valid points may be discussed and should be given credit.

Also give credit for:

- reference to economies such as UK and US
- use of relevant diagrams to aid the analysis accurately drawn
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (d) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

STEMUP.CO.UK

Section B

Each question carries 50 marks

2 (a)	Explain why economic growth is regarded as a major macroeconomic objective by governments. *(20 marks)*

For candidates who:

provide an explanation of economic growth, e.g. in terms of actual growth/trend growth, LRAS, PPF, GDP

outline what other government macroeconomic objectives might be with definition or explanation (do not award marks for simply stating what they might be since these are given in part (b)) **up to 6 marks**

use relevant diagrams accurately drawn

Award up to 2 marks per relevant diagram (for AD/AS or supply and demand diagrams 1 mark for shift of curve/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of 6 marks.

explain reasons for governments wanting to achieve economic growth, e.g.

- to improve the standard of living, e.g. economic growth gives the opportunity for higher incomes with the potential for higher disposable income (2 marks); higher levels of consumption can take place including higher demand for consumer durables and/or housing (2 marks); equally, there can be inroads into absolute and relative poverty (2 marks); overall a greater sense of well-being in terms of both quantitative and qualitative measures (2 marks).
- job creation
- to help improve the balance of payments
- supply-side growth helping to achieve price stability
- to create the necessary wealth to improve public services, with reference to the provision and improving quality of merit goods and public goods

up to 8 marks per explanation

Reward references to the UK economy (and/or other economies)

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

2(b)	Evaluate the view that, in the long run in the UK, the macroeconomic objectives of economic growth, price stability, full employment and a strong balance of payments can be achieved without conflicting with each other. *(30 marks)*

It is anticipated that candidates will develop a discussion of macroeconomic objectives and relate these to supply-side issues which might allow any conflict to be avoided.

For candidates to be awarded **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could be in terms of stating that supply-side improvements might be too weak to prevent conflict; supply-side improvements might not eradicate all examples of conflict; AD management may be of equal importance to avoid some examples of conflict; that the authorities may accept a degree of conflict as long as there is confidence that it is being monitored and controllable; the acceptance by the authorities of some conflicts emerging because of success with what are perceived to be the more important achievements; a possible need to accept gradual eradication of conflict rather than wanting an 'overnight' success.

Award a maximum of **24 marks** if there is no reference to the UK economy.

Issues and areas for discussion include:

- a review of macroeconomic objectives
- economic growth
- price stability
- full employment
- a strong balance of payments
- the exchange rate
- examples of potential conflict, e.g. economic growth and price stability; economic growth – higher consumption – deterioration in the balance of payments on current account; full employment and price stability
- the relevance of demand-management policies, notably interest rates
- a review of supply-side issues
- productivity
- investment
- education and training
- R&D
- competitiveness
- an assessment of the importance of specific conflicts and their eradication
- gradual, rather than sudden, eradication of conflict
- the significance of monitored and controlled conflict

Other equally valid points may be discussed and should be given credit.

Also give credit for:

- reference to the UK and/or other economies
- use of diagrams to aid the analysis accurately drawn
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

STEMUP.CO.UK

3(a) Explain how fiscal policy could be used to influence aggregate demand. *(20 marks)*

For candidates who:

explain the concept of AD, perhaps with a definition and reference to its main components through use of the standard equation **up to 4 marks**

explain the term 'fiscal policy', perhaps with reference to the main components of the policy, different ways of analysing public spending, different types of taxes **up to 4 marks**

explain the distinction between automatic and discretionary fiscal stabilisers **up to 6 marks**

explain the significance of tax changes to AD **up to 6 marks**

explain the significance to AD of changes to public expenditure **up to 6 marks**

explain the significance of various budgetary positions to AD **up to 6 marks**

use relevant diagrams accurately drawn

Award up to 2 marks per relevant diagram (for AD/AS or supply and demand diagrams 1 mark for shift of curve/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of 6 marks.

Reward references to the UK economy (and/or other economies)

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

3(b)	The UK government decides to bring about a significant shift in the sources of tax revenue from direct taxes, such as income tax, to indirect taxes, such as Value Added Tax (VAT). Evaluate the potential economic consequences of such a shift in the sources of tax revenue. *(30 marks)*

It is anticipated that candidates might initially review the distinction between direct and indirect taxes. There is likely to be reference to the UK tax system and to the general functions of taxation in any economy.

To score **19 marks** or more there must be evidence of evaluation. For this question, this could be in terms of an assessment of the phrase 'significant shift'; the period of time over which this shift is made; the questioning of the view that there will be a substantial impact, perhaps related to the issue of theoretical predictions versus empirical research; whether the impact has time to develop before there are political changes which instigate a reversal of policy.

Award a maximum of **24 marks** if there is no reference to the UK economy and/or UK Government policy.

Issues and areas for discussion:

- the 'burden of tax' concept, expressed, for example, as a % of GDP
- direct taxation
- indirect taxation
- examples of direct and indirect taxes
- national insurance contributions
- the redistributive impact of progressive v regressive taxation
- the impact on enterprise
- the impact on productivity
- the impact on decisions to invest
- the impact on decisions to save
- the impact of indirect taxes on the pattern of consumption
- the impact of indirect tax changes on the measurement of inflation
- labour's response to any observed rise in inflation
- theoretical predictions versus the findings of empirical research
- the nature of 'significant shift'
- the period of time over which the shift takes place
- the likelihood of a reversal of policy arising from political change
- changes in the context of EU tax harmonisation
- the income and substitution effects arising from changes in income tax
- the Laffer Curve

Other equally valid points may be discussed and should be given credit.

Also give credit for:

- reference to the UK and/or other economies
- use of diagrams to aid the analysis accurately drawn
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

STEMUP.CO.UK

4(a)	Explain the various determinants of the exchange rate of one currency against other currencies.	*(20 marks)*

For candidates who:

define/explain the term 'exchange rate' and/or make other relevant general comments on exchange rates **up to 4 marks**

explain possible determinants, eg:

- trade flows, eg exports create a demand for the domestic currency by those buyers of the economy's exports (2 marks); imports create a supply of the domestic currency by those in the economy wishing to purchase imports (2 marks); this is because exporters of goods and services often prefer to be paid in their own currency in order, for example, to avoid the cost of currency conversion (2 marks); the consequent change in the demand for the currency relative to the change in supply will determine the change in the exchange rate, ceteris paribus (2 marks).
- investment flows
- speculation/expectations/confidence
- interest rates
- government/central bank intervention
- the condition of the domestic economy, eg the rate of inflation and the potential impact on competitiveness **up to 8 marks per determinant**

Reward diagrams as long as they refer specifically to, and aid, the explanation of a determinant rather than simply duplicating any earlier use of supply and demand diagrams in the introduction for which credit has already been given.

Award up to 2 marks per relevant diagram (for AD/AS or supply and demand diagrams 1 mark for shift of curve/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of 6 marks. Up to 4 marks per diagram for something more complex (as above, but 2 further marks possible for the greater amount of information provided on the graph), eg intervention buying and selling, to a maximum of 8 marks in total for diagram.

Reward any references to the UK and/or other economies.

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

4(b) "The pound sterling has been 'piggy-in-the-middle' between the US dollar and the euro. In the past five years, for example, the pound has climbed by as much as 25% against the dollar, while falling 10% against the euro."

DAVID SMITH, © *The Sunday Times*, 20 November 2005

Evaluate the possible economic consequences for UK macroeconomic performance of changes in the external value of the pound. *(30 marks)*

It is anticipated that candidates will provide an introductory review of the significance of the changes indicated in the quote, perhaps with some reference to the importance of the USA and the EU to UK trade, before going on to analyse and evaluate some of the consequences of these changes.

To score **19 marks** or more, there must be evidence of evaluation. For this question, evaluation could be in terms of whether elasticity conditions influence the actual significance of such changes; the potential significance of the inherent strength of the economies concerned; how changes in the exchange rate can be a two-edged sword, e.g. as regards export and import prices; whether or not the changes are tempered by changes in the pound's value against currencies other than the euro and the US dollar.

Award a maximum of **20 marks** if candidates discuss only the consequences of appreciation **or** of depreciation.

Award a maximum of **24 marks** if there is no reference to the UK economy.

Issues and areas for discussion:

- exchange rate systems
- introductory comments on the nature of macroeconomic performance
- economic growth
- inflation
- employment
- balance of payments
- elasticity conditions
- the potential significance of the changes cited in the quote
- an assessment of the UK's ability to take advantage of the £'s increased competitiveness against the euro, perhaps with reference to specific supply-side issues
- the ability to compensate for the £'s appreciation against the $
- the significance of changes for import prices
- the significance for investment flows
- the significance for tourism
- exchange rate changes against other currencies
- the possible relevance of the condition of the economy prior to the changes in currency values
- the significance of volatility of currency values, e.g. are these trends likely to be reversed in the next five years or will the noted changes be longer-lasting?

STEMUP.CO.UK

Other equally valid points may be discussed and should be given credit.

Also give credit for:

- reference to other economies
- use of diagrams to aid the analysis, accurately drawn
- an overall judgement on the issues raised

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR THIS QUESTION 50: MARKS

STEMUP.CO.UK

General Certificate of Education
January 2007
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

ECONOMICS **ECN6**

Unit 6 Government Policy, the National and International Economy

Tuesday 30 January 2007 9.00 am to 10.30 am

For this paper you must have:
- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You will be marked on your ability to use good English, to organise relevant information clearly and to use specialist vocabulary where appropriate.

Advice
- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

STEMUP.CO.UK

SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 UNEMPLOYMENT

Study **Extracts A, B and C,** and then answer **all** parts of Question 1 which follows.

Extract A: UK unemployment and inflation rates, 1981 – 2005

Extract A was a graph.
It has not been reproduced electronically due to third-party copyright constraints.

Extract B: How beneficial is falling unemployment?

Unemployment can have a number of causes, both on the demand side (e.g. tax rises and higher interest rates) and on the supply side (e.g. higher unemployment benefits and rising oil prices). In recent years, however, unemployment has been falling, bringing clear benefits to both individuals and the economy. For individuals, these include higher incomes, more spending power and reduced welfare dependency; for the economy, these include the prospect of higher output and the potential benefits arising from increased tax revenue and less welfare spending.

Nevertheless, it must be remembered that a fall in unemployment and a rise in employment, resulting from an increase in low-skilled and low-paid jobs, are likely to be less beneficial than the same change occurring due to an increase in high-skilled and high-paid jobs. Also, the impact of falling unemployment on inflation must be gauged. Inflation can present problems for the macroeconomy. Economic growth, unemployment and the balance of payments may deteriorate, given the likely consequent increases in interest rates, falling business and consumer confidence, and the possible damage to competitiveness.

Source: adapted from an article by SUSAN GRANT, *British Economy Survey*, Vol 34 (1), Autumn 2004

STEMUP.CO.UK

Extract C: Can low unemployment be sustained?

At any particular moment, the number of jobs is determined by the level of household consumption, as well as by other components of aggregate demand (AD). AD is influenced by many factors, mostly outside the direct control of policymakers, although monetary policy is vital in seeking to influence it. It is important that policymakers recognise the risk of inflation accelerating as unemployment falls, especially if unemployment begins to be pushed below its natural rate.

It is true that AD will be a key determinant of the number of jobs. However, if low unemployment is to be sustained and the natural rate lowered over time, supply-side improvements to the labour market are crucial. These may include trade union and welfare reforms, improved training, increased flexibility and mobility of labour. The number of jobs will ultimately depend on the available supply of those who are ready and willing to take up jobs, and these supply-side improvements will help in this respect.

Source: adapted from an article by RICHARD LAYARD and STEPHEN NICKELL, *CentrePiece*, Vol 8 (1), Winter 2003

Question 1

(a) Using **Extract A,** compare the changes in the rate of unemployment with the changes in the rate of inflation for the period 1981 to 2005. *(4 marks)*

(b) **Extract B** (lines 1 to 3) refers to demand-side and supply-side causes of unemployment. Explain one demand-side cause **and** one supply-side cause of unemployment. *(6 marks)*

(c) **Extract B** (line 12) suggests that inflation 'can present problems for the macroeconomy'. Analyse the possible effects of a sustained rise in the rate of inflation. *(10 marks)*

(d) Using the data and your economic knowledge, evaluate the possible effects of falling unemployment on individuals **and** on the performance of an economy. *(30 marks)*

Turn over for the next question

STEMUP.CO.UK

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

2 The 2005 Budget Statement has forecast that, for the period 2004 to 2010, the average annual borrowing by the UK government (the Public Sector Net Cash Requirement or PSNCR) would be £26 billion.

(a) Explain the likely economic reasons for government borrowing. *(20 marks)*

(b) Evaluate the possible problems for the UK economy of increased government borrowing. *(30 marks)*

3 (a) Explain the possible causes of economic growth. *(20 marks)*

(b) In recent years, eastern European countries, such as Poland, have joined the European Union (EU). New markets and business locations are developing, with resource mobility, including labour, increasing. This expansion of the EU has therefore brought opportunities for growth, jobs and investment to the UK.

Evaluate the possible impact of this expansion of the EU on UK economic performance. *(30 marks)*

4 (a) Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world. *(20 marks)*

(b) In the years 2000 to 2004, the annual average balance of payments deficit on current account for the UK was £22 billion.

Evaluate the measures which may be taken to deal with a balance of payments deficit on current account. *(30 marks)*

END OF QUESTIONS

ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future papers if notified.

Extract B: Extract from 'British Economy Survey' 34/1, © Esterbrooke Enterprises 2004

Extract C: CentrePiece magazine is published three times a year by the Centre for Economic Performance, London School of Economics (http://cep.lse.ac.uk). This extract is taken from the article 'Full Employment Is Not Just A Dream' by Richard Layard and Stephen Nickell.

Copyright © 2007 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1.0: 0207

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Economics ECN6

Unit 6 Government Policy, the National and International Economy

Mark Scheme

2007 examination - January series

STEMUP.CO.UK

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available to download from the AQA Website: www.aqa.org.uk

Copyright © 2007 AQA and its licensors. All rights reserved.

COPYRIGHT
AQA retains the copyright on all its publications. However, registered centres for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to centres to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Set and published by the Assessment and Qualifications Alliance.

The Assessment and Qualifications Alliance (AQA) is a company limited by guarantee registered in England and Wales (company number 3644723) and a registered charity (registered charity number 1073334).
Registered address: AQA, Devas Street, Manchester M15 6EX
Dr Michael Cresswell Director General

STEMUP.CO.UK

Advanced Level Economics

January 2007 **ECN6**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 5 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 4. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 5. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

STEMUP.CO.UK

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

Level 1
Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.
0 to 6 marks (*Mid-Point: 3 marks)*

Level 2
A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.
7 to 12 marks *(Mid-Point: 10 marks)*

Level 3
A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.
13 to 20 marks *(Mid-Point: 17 marks)*

Level 4
Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.
21 to 26 marks *(Mid-Point: 24 marks)*

Level 5
Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision.
27 to 30 marks *(Mid-Point: 29 marks)*

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
(ii) use of specialist vocabulary, where appropriate;
(iii) legibility of handwriting;
(iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

STEMUP.CO.UK

SECTION A

1 **Total for this question: 50 marks**

1 (a) Using **Extract A**, compare the changes in the rate of unemployment with the changes in the rate of inflation for the period 1981 to 2005. *(4 marks)*

Award up to 2 marks for each point (one mark for identification and one mark for reference to the data). For example:

Inflation shows a more significant fall than unemployment

An inverse relationship is clearly shown on three occasions

Both inflation and unemployment are at their lowest levels in the period 1997 to 2005

At their highest, inflation reaches 13%, unemployment 11%

The lowest rate of inflation is 2%, unemployment under 3 – 4%

The wide divergence seen between unemployment and inflation in the early 1990s closes significantly by 2005

Award a maximum of **1 mark** if the candidate simply trawls through the data with no attempt at comparison.

Award a maximum of **2 marks** if there is no use of statistics.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

MAXIMUM FOR PART (a) 4 MARKS

STEMUP.CO.UK

1 (b) **Extract B** (lines 1 to 3) refers to demand-side and supply-side causes of unemployment. Explain one demand-side cause **and** one supply-side cause of unemployment. *(6 marks)*

For candidates who:

define unemployment **1 mark**

explain one demand-side cause of unemployment, eg:

- tighter monetary policy. Candidates might refer to the role of the MPC decision-making, the impact of high interest rates on credit, saving, investment and hence on AD, leading to potential damage to economic growth and jobs
- increases in taxation
- world recession or downswing, or such an occurrence amongst some of a country's major trading partners
- a slowdown or fall in the rate of growth of earnings
- an appreciation in the exchange rate (which could legitimately also be included in any reference to monetary policy)
- international globalisation/competition
- a fall in consumer confidence

up to 4 marks

explain one supply-side cause of unemployment, eg:

- higher oil prices. Candidates might refer to the impact on costs of production, the consequent impact on AS, inflation, confidence and hence potential damage to employment
- the impact of higher welfare benefits on voluntary unemployment
- taxation and a greater regulatory burden raising costs
- new technology/investment in labour-displacing capital equipment
- uncompetitive wage rates/outsourcing/high labour costs
- occupational and geographical immobility

up to 4 marks

Award up to **2 marks** per relevant diagram (1 mark for shift/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **3 marks**,

Award a maximum of **4 marks** if the candidate refers only to the demand side or supply side.

Award a maximum of **2 marks** if the candidate offers no explanation of points raised.

MAXIMUM FOR PART (b) 6 MARKS

STEMUP.CO.UK

1 (c) **Extract B** (line 12) suggests that inflation 'can present problems for the macroeconomy'. Analyse the possible effects of a sustained rise in the rate of inflation. *(10 marks)*

Issues and areas for discussion include:

- definition/explanation of inflation
- measurement of inflation
- the notion of a sustained rise in inflation
- UK experience of inflation

- export competitiveness
- an arbitrary distribution of income
- shoe leather costs
- menu costs
- impact on business and consumer confidence
- expectations
- tighter monetary policy
- Phillips curve

Candidates should be rewarded for accurate and relevant diagrams to support their answer.

LEVEL 1
The candidate has a vague idea about inflation, mentions briefly a few effects of inflation, but cannot provide a fuller explanation or analysis **1 to 3 marks**

LEVEL 2
At least **two** effects are well explained/analysed for the most part. There may be some confusion and misunderstanding at the lower end of the mark range which is not evident in the top half of the mark range. For the higher marks there needs to be some evidence of economic terminology, with little confusion in the analysis. **4 to 7 marks**

LEVEL 3
At least **two** effects are explained in a coherent and precise way with reference to economic concepts and good use of economic terminology. At the top of the mark range there **may** be relevant references to the UK economy and/or other economies. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

STEMUP.CO.UK

1 (d) Using the data and your economic knowledge, evaluate the possible effects of falling unemployment on individuals **and** on the performance of an economy. *(30 marks)*

It is expected that candidates will deal with individuals and the economy in turn, probably with some reference to the UK economy and/or other economies. There must be evidence of evaluation for candidates to score **19 marks** or more.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the data.

Evaluation could be that *the impact of falling unemployment on the individual may depend on where the fall is most noticeable; the welfare state may have 'cushioned' the individual against the worst effects of his/her unemployment; the positive effects (eg encouraging labour's mobility and flexibility) may or may not compensate for the negative impact when unemployed (eg lower morale and reduced self-confidence); how secure newly-found jobs prove to be. In the economy as a whole, the resulting level of unemployment once the fall ends, the rate of change of unemployment, and over what time period the fall takes place may be significant evaluative factors; also, although falling unemployment is seen in a positive light, it may be harmful to price stability and hence competitiveness*. ***Where*** *falling unemployment most strongly occurs may have some significance.*

Issues and areas for discussion:

- types of unemployment
- measurement of unemployment
- significance of the rate of change of unemployment
- national or regional reductions

For the individual:

- the changing attitude towards training/retraining
- the changing attitude towards occupational and geographical mobility
- the impact on income and living standards
- the impact on wage costs and hence on future attraction of labour to employers
- morale, motivation and productivity
- the welfare benefit/wage comparison

For the economy:

- the impact on inflation (perhaps with reference to the Phillips Curve) and, potentially, competitiveness
- tax revenue
- reduced welfare spending and implications for other types of spending and taxation
- AD
- economic growth
- regional impact

STEMUP.CO.UK

Other equally valid points may be discussed and should be given credit. Also give credit for:

- reference to the data, noting the constraint above
- reference to the UK and/or other economies
- an overall judgement on the issues raised

Candidates should be rewarded for relevant and accurate diagrams.

A maximum of **20 marks** if only the effects on the individual or on an economy are discussed.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (d) 30 MARKS

TOTAL FOR QUESTION 1: 50 MARKS

STEMUP.CO.UK

SECTION B

Total for this question: 50 marks

2 The 2005 Budget Statement has forecast that, for the period 2004 to 2010, the average annual borrowing by the UK government (the Public Sector Net Cash Requirement or PSNCR) would be £26 billion.

(a) Explain the likely economic reasons for government borrowing. *(20 marks)*

For candidates who:

- define PSNCR perhaps with reference to budget imbalance, National Debt (although the latter is not in the specification), put government borrowing into the context of fiscal policy as a whole
- make reference to recent/current UK fiscal policy
- explain the various ways of analysing spending, eg capital/current/transfer; demand led/supply led; by programme or department
- explain the various ways of analysing taxation, eg direct/indirect; progressive/regressive/proportional
- explain the need for borrowing in terms of a desire to increase spending without raising taxation, or in order to limit tax increases, or a desire to cut spending but to cut taxes further

up to 3 marks per point explained to a maximum of 8 marks

explain reasons for changes in government spending, eg:

cyclical/stability reasons – candidates may refer to the trade cycle, changing levels of spending in total but also as regards types of spending, the multiplier effect, AD (perhaps with use of diagrams)

to influence the rate of economic growth

income redistribution/anti-poverty policies

changes in the level of provision of merit/public goods

changes to policies towards negative externalities, eg environmental policy

changes to the rolling programmes of capital expenditure

up to 5 marks per reason explained

explain reasons for changes to the level of taxation, eg:

to influence AD, eg candidates might refer to cuts in income tax, so raising disposable income, which in turn may stimulate business investment and the multiplier process

to influence AS

STEMUP.CO.UK

to influence the distribution of income

to influence the flow of FDI

to attempt to alter the pattern of consumption **up to 5 marks per reason explained**

Award up to **2 marks** per relevant diagram (1 mark for shift of curve/movement along curve as appropriate, 1 mark for labelling of axes/curve(s) if largely complete and correct), to a maximum of **6 marks.**

Award a maximum of **14 marks** if only spending or taxation is referred to.

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

2 (b)	Evaluate the possible problems for the UK economy of increased government borrowing. *(30 marks)*

It is expected that strong candidates may have an awareness of the debate amongst both politicians and economists concerning the potential impact of government borrowing. It is anticipated that candidates will be able to provide a balanced answer against this background.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy

There must be evaluation for a candidate to score **19 marks** or more. This could be in terms of *discussing the impact against the background of fiscal policy in the years leading up to 2004; if fiscal expansion is a potential cause of inflation, a consideration of other inflationary forces, if any, in evidence in the economy; if the borrowing is a possible cause of higher interest rates, whether or not there are any other causes of higher interest rates in evidence; the reaction by the Monetary Policy Committee (MPC) if it holds a view on the potential impact of the deficits.*

Issues and areas for discussion:

- an outline of fiscal policy
- public spending
- budgetary imbalance (cyclical v structural deficits)
- PSNCR
- recent UK experience
- sources of borrowing
- fiscal expansion in the context of the UK economic cycle or cycles in other parts of the world
- higher government spending and/or tax cuts as causes
- future spending cuts/tax increases if borrowing becomes perceived as unsustainable
- impact on AD and hence different aspects of economic performance
- the multiplier
- impact on inflation
- the sustainability of any economic growth achieved
- crowding out
- pressure on interest rates
- impact on money supply
- impact on the National Debt
- implications for the Code for Fiscal Stability
- implications for any shadowing of the Growth and Stability Pact
- possible response by MPC
- assessment in terms of **how** additional funds are being spent
- impact on household and business confidence

Also give credit for:

- use of diagrams
- an attempt at a final judgement

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 2: 50 MARKS

STEMUP.CO.UK

3 (a) Explain the possible causes of economic growth. *(20 marks)*

For candidates who:

- define/explain economic growth, perhaps with reference to GDP and/or to increases in the productive capacity of the economy
- distinguish short run growth from the long run trend rate of economic growth
- make reference to recent UK economic growth performance
- make reference to the growth experiences of other economics, eg China and India

up to 3 marks per point explained to a maximum of 8 marks

explain causes of economic growth, eg:

- investment, perhaps with reference to new technology, improved capital equipment, thus raising the potential for productivity improvements to enhance competitiveness and increase output
- R&D
- training and education
- productivity improvements
- the significance of AD, perhaps looking at specific components such as exports, considering the role of government/Bank of England in influencing AD
- availability of, and increase in, natural resources
- additional human resources, perhaps with reference to recent UK immigration
- the opportunities afforded by a free enterprise economy

1 mark for identification of a cause
and up to a further 6 marks for explanation

use diagrams to support their explanations **up to 2 marks per relevant diagram**

(1 mark for appropriate information included, eg a rightward shift of the PPF, and 1 mark for largely complete and correct labelling of axes/curves) **to a maximum of 6 marks**

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

3 (b) In recent years, eastern European countries, such as Poland, have joined the European Union (EU). New markets and business locations are developing, with resource mobility, including labour, increasing. This expansion of the EU has therefore brought opportunities for growth, jobs and investment to the UK.

Evaluate the possible impact of this expansion of the EU on UK economic performance. *(30 marks)*

It is anticipated that candidates might provide a brief background to the enlargement, especially if they have been studying the EU for paper EC4W. However, this is **not** a requirement for higher level marks. It is expected, however, that the better candidates will attempt to define or explain the term 'economic performance'.

Candidates should be limited to a maximum of **24 marks** if there is no reference to the UK economy.

There must be evaluation for a candidate to be able to achieve **19 marks** or more. Evaluation could be in terms of *discussing whether integration has yet gone far enough to have much impact in the immediate future; whether the impact is more limited for the UK than it might be for those member countries which have adopted the euro; how competitive the UK is when compared to other EU members; given that we are a service-based economy to a large extent, the possibility that the impact will be limited until there is a single market in services; the extent to which the UK will welcome immigrants from the new member countries; the level of enthusiasm in the UK business world to respond to new challenges; the possible significance of the retarded economic development of some of these countries*

Issues and areas for discussion:

- economic performance
- economic growth
- inflation
- balance of payments
- employment/unemployment
- competitiveness
- EU integration
- Single European Market (SEM)
- Single European Currency (SEC)
- labour supply/migration
- outsourcing
- relocation
- investment
- increased competition
- economies of scale
- the UK as a service-based economy
- the potential impact on UK manufacturing
- the potential impact on UK productivity trends and the productivity gap
- the issue in the context of globalisation
- the significance of the EU as a trading bloc
- changing patterns of trade

Also give credit for:

STEMUP.CO.UK

- use of diagrams to aid the analysis
- a final judgement or assessment

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 3: 50 MARKS

STEMUP.CO.UK

4 (a) Explain the possible reasons for changes in the pattern of trade between the UK and the rest of the world. *(20 marks)*

For candidates who:

- explain the significance of trade to the UK economy
- define/explain the term 'pattern of trade', eg the relative importance of different areas of the world or individual countries for the UK as far as trade is concerned
- explain pattern in terms of products traded
- make reference to the actual pattern of trade between the UK and the rest of the world

up to 3 marks per explanation
to a maximum of 8 marks

explain comparative advantage and how changes in comparative advantage might be significant **up to 6 marks**

give a numerical example of comparative advantage to help explain how a change might be significant **up to 6 marks**

explain other possible reasons for changes in the pattern of trade, eg:

- changes in absolute advantage
- changes in protectionist/free trade policies in other countries
- exchange rate changes
- creation/development of trade blocs, perhaps with reference to trade diversion/trade creation
- changing expertise/reputation and other non-monetary changes in competitiveness, eg quality of product or service, the quality of after-sales services
- the potential for change in government policies towards exports, eg credit guarantees, subsidies
- the evolving enthusiasm (or lack of it) for globalisation
- discovery/exploitation of natural resources/changing needs for such resources
- terms of trade (but this is not an A2 topic)

1 mark for identification of a reason and
up to a further 6 marks per cause explained

While it might be anticipated that comparative advantage will form a central part of many answers, a maximum of **14 marks** may be awarded if the answer does not go beyond comparative advantage, i.e. in effect the candidate is confining their answer to a single cause of change.

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

4 (b) In the years 2000 to 2004, the annual average balance of payments deficit on current account for the UK was £22 billion.

Evaluate the measures which may be taken to deal with a balance of payments deficit on current account. *(30 marks)*

It is anticipated that candidates will show an awareness of the continuing weakness in UK external performance and briefly explain why it persists, one of which may be stated as the limited or belated response to changing trade patterns, in order to link with part (a).

There must be evidence of evaluation for a candidate to be awarded **19 marks** or more. Evaluation could be in terms of *whether or not a particular measure is seen as a short term expedient or an attempt at a long term solution; whether it is necessary to take any action given that the deficit may have no, or limited, impact on other aspects of economic performance; some options may not be feasible in a modern context, eg devaluation, protectionism (given the work of GATT and the WTO since the mid-90s); a consideration of whether or not the problem is best left to the currency markets to sort out.*

Issues and areas for discussion:

- the structure of the balance of payments
- surplus or deficit on current account
- the notion of 'balance'
- causes of deficits

- the significance of the capital account
- the use of official reserves
- exchange rate manipulation
- reductions in interest rates potentially affecting the exchange rate
- reductions in AD to stem the flow of imports/divert production to the export sector
- protectionism
- government role in export promotion
- supply-side improvements which might begin to provide a solution to the weakness, which might include reference to such factors as:
    - competitiveness/unit labour costs
    - productivity
    - technology
    - resource reallocation
    - investment
    - industrial relations
- free floating as a contrast to intervention

Also give credit for:

- use of diagrams to aid the analysis
- reference to the UK and/or other economies
- a final judgement or assessment

USE THE LEVELS MARKING SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 4: 50 MARKS

STEMUP.CO.UK

General Certificate of Education
June 2006
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

ECONOMICS **ECN6**
Unit 6 Government Policy, the National and International Economy

Monday 26 June 2006 1.30 pm to 3.00 pm

For this paper you must have:
- an 8-page answer book

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between the different aspects of Economics.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

Advice
- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

STEMUP.CO.UK

SECTION A

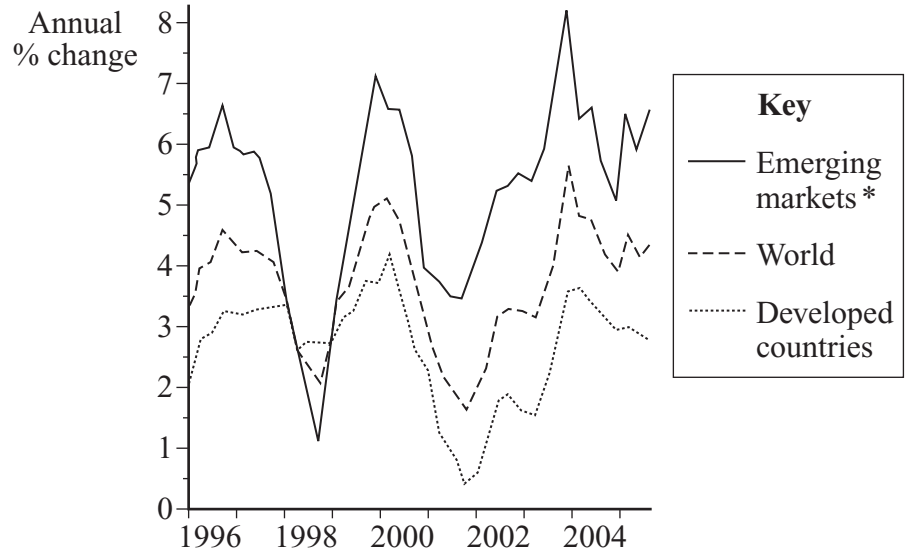
Answer **all** parts of this question.

Total for this question: 50 marks

1 GLOBALISATION

Study **Extracts A, B, C and D**, and then answer **all** parts of Question 1 which follows.

Extract A: Real GDP growth, 1996–2005



* Emerging markets: countries which in recent years have experienced high economic growth based on rapid expansion of manufacturing output and more market-orientated policies. Examples include India, China, Brazil and Singapore.

Source: adapted from *World Economic Outlook*, September 2004

Extract B: Globalisation: desirable or undesirable?

Extract B was text adapted from a book.
It has not been reproduced here due to third-party copyright constraints.

STEMUP.CO.UK

Extract C: Globalisation: contrasting experiences

Extract C was text adapted from a journal article.
It has not been reproduced here due to third-party copyright constraints.

Extract D: The debate develops

Two important aspects of the globalisation process are freer trade and increased international investment. It is argued by environmental groups that these encourage economic growth as competitiveness is given a higher profile, production is stimulated and both generate a strong multiplier effect in those economies affected. The globalisation-environment debate has evolved in two ways. First, more intense competition arising from freer trade might encourage governments and firms to set lower environmental standards. Second, greater mobility of capital will encourage firms to locate in countries with less strict environmental standards, the so-called pollution havens.

Source: adapted from SURJINDER JOHAL, 'Globalisation, the environment and the World Trade Organisation', *Economic Review*, vol 21 (4), Philip Allan Updates, 2004

Question 1

(a) Using **Extract A**, compare real GDP growth for the world economy with that shown for the emerging markets and developed countries for the period 1996 to 2005. *(4 marks)*

(b) **Extract B** (lines 1 and 2) describes globalisation as a 'force sweeping away frontiers and encouraging economic integration'. Explain the term 'globalisation' with the help of this description. *(6 marks)*

(c) Analyse the way in which **either** freer trade **or** increased international investment might help achieve economic growth (**Extract D**, lines 1 and 2). *(10 marks)*

(d) 'Globalisation is, on balance … highly desirable' (**Extract B**, line 6). Using the data and your economic knowledge, evaluate the economic consequences of globalisation for **either** developed **or** developing countries. *(30 marks)*

Turn over ▶

STEMUP.CO.UK

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

2 (a) Explain the term 'underlying trend rate of economic growth' and the factors determining this trend rate. *(20 marks)*

(b) Evaluate the potential impact on the economic growth of the UK economy if it were to adopt the single European currency. *(30 marks)*

3 (a) Explain how a fall in the rate of inflation might be achieved by both demand-side **and** supply-side factors. *(20 marks)*

(b) Evaluate the possible consequences of a falling rate of inflation for the performance of the UK economy. *(30 marks)*

4 (a) Explain how exchange rates are determined in a floating exchange rate system. *(20 marks)*

(b) Evaluate the possible impact on UK macroeconomic performance of a sustained rise in the value of the pound sterling against the euro and the US dollar. *(30 marks)*

END OF QUESTIONS

ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS
Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future papers if notified.

Extract A: International Monetary Fund

Copyright © 2006 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1.0: 07.06

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Economics 6141

ECN6 Government Policy, the National and International Economy

Mark Scheme

2006 examination – June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Copyright © 2006 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Advanced Level Economics

June 2006 **ECN6**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 4 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 3. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 4. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

STEMUP.CO.UK

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

Level 1

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks *(Mid-Point: 3 marks)*

Level 2

A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately.

7 to 12 marks *(Mid-Point: 10 marks)*

Level 3

A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.

13 to 20 marks *(Mid-Point: 17 marks)*

Level 4

Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.

21 to 26 marks *(Mid-Point: 24 marks)*

Level 5

Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision. **27 to 30 marks** *(Mid-Point: 29 marks)*

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
(ii) use of specialist vocabulary, where appropriate;
(iii) legibility of handwriting;
(iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

STEMUP.CO.UK

SECTION A

1 **Total for this question: *50 marks***

1 (a)	Using **Extract A**, compare real GDP growth for the world economy with that shown for the emerging markets and developed countries for the period 1996 to 2005. *(4 marks)*

Award one mark for each valid point made and one mark for the supporting reference to the data. Points might include:

- all three display volatile GDP growth throughout the period
- the peaks and troughs in GDP growth for the emerging markets and developed countries reflect those for the world economy as a whole
- the emerging markets have a better GDP growth than the world as a whole for most of the period
- for most of the period, the industrial countries are unable to match the GDP growth of the world as a whole

A maximum of **1 mark** may be awarded if the candidate simply trawls through the data with no attempt at comparison.

A maximum of **2 marks** may be awarded if there is no use of statistics.

A maximum of **3 marks** may be awarded where there is evidence of an overview having been taken, even though parts of the answer give an impression of a trawl through the data.

A maximum of **1 mark** if a candidate does not include any reference to the world economy in the comparisons made.

A maximum of **3 marks** if a candidate makes a comparison between the world economy and **either** developed countries **or** emerging markets.

MAXIMUM FOR PART (a) 4 MARKS

STEMUP.CO.UK

1 (b)	**Extract B** (lines 1 and 2) describes globalisation as a 'force sweeping away frontiers and encouraging economic integration'. Explain the term 'globalisation' with the help of this description. *(6 marks)*

For candidates who:

attempt a brief explanation of the phrases in the quotation (e.g. a reduction or abolition of customs barriers, with trade and investment drawing economies closer together and increasing interdependence)	**up to 2 marks**
develop an explanation of the trade issue, e.g. referring to comparative advantage, types of protectionism, consequences for countries increasingly involved in world trade	**up to 4 marks**
explain the significance of international capital flows, perhaps including a definition of investment, referring to the role of MNCs, distinguishing portfolio and direct investment	**up to 4 marks**
make reference to the movement of people, e.g. between developing countries, between developing countries and the advanced world, skill transference, impact on labour supply and wage levels of both recipient countries and those affected by net emigration, the economic implications of the transfer of cultures, perhaps leading to gradual cultural change in the countries affected	**up to 4 marks**
explain the significance of the spread of knowledge and technology to the globalisation process, e.g. referring to the spread of knowledge of production methods, management expertise, export markets and appropriate economic policies	**up to 4 marks**

MAXIMUM FOR PART (b) 6 MARKS

STEMUP.CO.UK

1 (c)	Analyse the way in which **either** freer trade **or** increased international investment might help achieve economic growth (**Extract D**, lines 1 and 2). *(10 marks)*

Candidates are likely to develop the leads given in Extracts C & D. Some parts of a candidate's answer could, of course, be relevant to either choice in the question

Issues and areas for discussion include:

- economic growth;

- trade and the export-led multiplier;
- absolute/comparative advantage;
- specialisation, efficiency, increased production;
- competitiveness;
- the stimulus to R&D and hence innovation;

- definition of investment;
- investment and the multiplier process;
- accelerator (note this is not in the A2 specification);
- efficiency and competitiveness;
- R&D and innovation.

LEVEL 1

The candidate draws briefly from the extracts with little or no analysis, and so displays little understanding of the trade/investment and growth relationship. **1 to 3 marks**

LEVEL 2

One or more linkages between trade/investment and growth are identified and some explanation given of how investment or trade can have an impact on growth. The analysis may be a little confused or incomplete, but correct for the most part. At the top of the band there is a clarity to the explanation with some use of economic terminology and concepts. **4 to 7 marks**

LEVEL 3

At least **two** issues are clearly explained in a well-organised answer. Good understanding and sound analytical skills are displayed. Economic terminology and concepts are well-used. At the top of the band there may be illustration from real world experiences although this is not an essential requirement for full marks to be awarded **8 to 10 marks**

If a candidate discusses both rather than either/or, award marks to the stronger part.

MAXIMUM FOR PART (c) 10 MARKS

STEMUP.CO.UK

1 (d)	'Globalisation is, on balance…highly desirable' (**Extract B**, line 6). Using the data and your economic knowledge, evaluate the economic consequences of globalisation for **either** developed **or** developing countries. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4,** at least three issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks or more**.

Evaluation could be in terms of: the extent to which a country has embraced the globalisation process to date, the inherent strengths/weaknesses of individual countries in either category, experiences of countries could be similar to some extent in both categories, the dangers of generalisations, an overall judgement on whether or not it is desirable.

Issues and areas for discussion:

- the term 'globalisation' clarified
- the criteria by which we categorise countries

For developed countries:

- economic growth and jobs;
- the benefits to exports of emerging markets;
- the increasing import threat from the developing countries and the possible temptation to strengthen protectionism provided by trade blocs;
- the impact on income distribution;
- the net impact of outsourcing;
- the role of MNCs and inward investment;
- the potential for outward investment;
- the impact of net capital flows and trade flows on the balance of payments of individual countries;
- the influence on structural reforms (differing consequences for manufacturing and services);
- the impact on labour markets;
- the impact on efficiency/productivity;
- the downward pressure on inflation which globalisation might bring;
- the potential for diminishing aid commitments or better targeting of aid;
- environmental issues;
- the winner/loser debate in the context of the advanced world.

STEMUP.CO.UK

For the developing countries:

- diversification away from primary activities;
- the aid-dependency issue;
- ability to repay debts and the possible impact on future borrowing;
- development of specialisms within the context of comparative advantage;
- economic growth and job creation;
- economic development;
- benefits of outsourcing by advanced countries;
- export potential;
- inward investment;
- income equality/inequality;
- absolute/relative poverty;
- living standards generally, for example, as measured by the HDI;
- impact of greater market-orientation;
- the environment (recent evidence that for many of these countries the priority is economic growth and development rather than environmental concerns);
- fiscal benefits;
- the winner/loser debate in the context of the developing countries.

Also give credit for:

- reference to real world examples
- diagrams
- an overall judgement on the issues raised

Where the candidate discusses the impact of globalisation generally, without explicit references to either developed or developing countries (i.e. does not make his/her choice clear), award a maximum of **24 marks** (mid level 4).

Where there is no explicit reference to the data, award a maximum of **21 marks.**

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (d) 30 MARKS

TOTAL FOR QUESTION 1: 50 MARKS

STEMUP.CO.UK

SECTION B

Each question carries 50 marks

2 (a)	Explain the term 'underlying trend rate of economic growth' and the factors determining this trend rate. *(20 marks)*

For candidates who:

explain the underlying trend rate of economic growth, e.g. in terms of productive potential, the economy's ability to grow without an accelerating rate of inflation, PPF, LRAS, references to GDP, references to supply-side issues

up to 2 marks for each point explained to a maximum of 8 marks but note also the additional marks available for diagrams as indicated below

explain causative factors which would include:

- investment, eg candidates might define investment, distinguish net and gross investment, refer to the importance of increasing productive capacity for GDP/trend growth, the possibility of seeing greater capital intensity in production plants with more technology and automation, the significance of FDI in creating such plants;
- research and development/technological progress;
- education and training;
- productivity.

up to 6 marks per explanation

explain the potential significance of rising AD to trend growth (i.e. increasing AD perhaps creating an economic climate in which factors determining trend growth might flourish) and explain ways of achieving this rise in AD.

up to 6 marks

use diagrams to support their explanations, e.g. PPF, LRAS, trend growth/actual growth, an increase in AD creating a climate in which factors determining trend growth might flourish. For an AD/AS diagram, 1 mark for correct labelling of axes, 1 mark for correct labelling of information provided (eg LRAS), 1 mark for coordinates, 1 mark for correct representation of information (eg shift of the LRAS, classical or Keynesian). For a trend growth/actual growth diagram or PPF diagram, 1 mark for correct labelling of axes, 1 mark for other labelling, 2 marks for correct representation of information as explained by the candidate around the diagram.

up to 4 marks per diagram to a maximum of 6 marks

reward references to the UK and/or other economies

Candidates who attempt only one part of the question should be limited to a maximum of **12 marks.**

Candidates whose answers are essentially concerned with AD and actual growth and so convey no understanding of the distinction between actual and trend growth, should be limited to a maximum of **8 marks.**

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

2 (b)	Evaluate the potential impact on the economic growth of the UK economy if it were to adopt the single European currency. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4,** at least three issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks or more**. Evaluation could be in terms of: the degree of convergence of the UK economy with the eurozone at the time of entry, the strength/weakness of the UK economy when required to face new challenges arising from entry, the economic climate in Europe, whether the UK can maintain economic stability after entry.

Issues and areas for discussion:

- distinction between actual and trend growth;
- GDP and its components;
- recent history of the euro;
- European Central Bank (ECB);
- official entry criteria/the 5 'tests' of the UK government, and so discussion of degree of convergence achieved;
- the euro adding strength to the single market's evolution;
- exports/imports;
- inward/outward investment;
- potential impact on growth of the loss of control over monetary policy, perhaps related to references to the MPC;
- the impact of the lower interest rates of the eurozone (as at May 2006);
- the impact of fiscal constraints (Stability and Growth Pact);
- the possibility of price transparency leading to lower prices and increased AD;
- the stimulus to concerns over competitiveness and consequent impact on productivity, labour skills, R&D;
- strengths/weaknesses of the UK economy;
- the possible differing impacts on manufacturing and services;
- the economic climate in Europe.

Also give credit for:

- reference to the UK economy;
- diagrams;
- an overall judgement on the issues raised.

Candidates should be limited to a maximum of **21 marks** if there is no reference to the UK economy.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS
TOTAL FOR QUESTION 2: 50 MARKS

STEMUP.CO.UK

3 (a)	Explain how a fall in the rate of inflation might be achieved by both demand-side **and** supply-side factors. *(20 marks)*

For candidates who:

define inflation **up to 2 marks**

distinguish a fall in the rate of inflation from a fall in prices (deflation**)** **up to 2 marks**

explain possible measurements of inflation, eg RPI, CPI **up to 2 marks**

explain demand-side factors, eg: **up to 4 marks per factor explained to a maximum of 12 marks**
- higher taxation
- lower government spending
- a rise in interest rates
- a fall in the rate of growth of earnings
- a slump in the housing market
- a weakening multiplier effect

explain supply-side factors, eg: **up to 4 marks per factor explained to a maximum of 12 marks**

in the short run:
- falling oil prices
- lower wage settlements
- higher productivity
- downward trends in non-oil commodity prices

in the long run:
- greater application of technology to production
- higher productivity
- increased investment
- the impact of privatisation/deregulation

use diagrams to support their explanations, eg AD/AS. Candidates may identify the Classical/Keynesian distinction. For each diagram, 1 mark for correct labelling of axes, 1 mark for correct labelling of information provided (eg LRAS), 1 mark for coordinates, 1 mark for correct representation of information (eg shift of the AD curve).

up to 4 marks per diagram to a maximum of 6 marks

reward references to the UK economy and/or other economies

If only demand-side or supply-side factors are explained, or no distinction is made between the two, the candidate should be limited to a maximum of **12 marks.**

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

3 (b)	Evaluate the possible consequences of a falling rate of inflation for the performance of the UK economy. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety. **Candidates would not necessarily have to consider all possible performance criteria to reach marks in the higher levels.**

To achieve **Level 4,** at least three issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks or more**.

Evaluation could be in terms of: the extent of the fall, the consequent rate of inflation in relation to that of other economies, how sustained the fall is, how it has been brought about, whether progress towards deflation can be controlled, the importance to some of the discussion of the *ceteris paribus* assumption, eg re the discussion of the impact of lower inflation on trade and investment flows and hence the exchange rate.

It is expected that candidates will choose from economic growth, employment/ unemployment, the balance of payments, and possibly the exchange rate, or deal in less detail with all four. **It will be quite possible for a candidate to achieve higher level marks without necessarily covering all aspects of economic performance but discussion of TWO of the above would be expected for Levels 4/5.**

Issues and areas for discussion:

- explanation of the term 'economic performance';
- an explanation of inflation;
- measurement of inflation;
- the UK inflation target;
- the role of the MPC;
- the extent of the fall in the rate of inflation;
- the significance of international comparisons;
- the sustainability of the fall;
- how any fall in inflation has been achieved – suppression of AD growth/longer term sound economic management/supply-side reforms;
- the impact of any deflation which may occur;
- GDP and economic growth, eg:
    - definition/explanation of GDP/economic growth
    - encouragement to invest and the overall impact of increased investment
    - the benefits of an export-led multiplier;
- employment/unemployment, eg the benefits to jobs of greater competitiveness, the confidence given to a business for expansion in which job creation might feature;
- the balance of payments, eg benefits to current account, attraction of inward investment as falling inflation creates greater confidence;
- the exchange rate, eg possible stronger demand for UK exports, fewer imports if domestic output is seen as more competitive.

STEMUP.CO.UK

Also give credit for:

- reference to the UK and/or other economies;
- diagrams;
- an overall judgement on the issues raised.

Candidates should be limited to a maximum of **21 marks** if there is no reference to the UK economy.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 3: 50 MARKS

STEMUP.CO.UK

4 (a)	Explain how exchange rates are determined in a floating exchange rate system.	*(20 marks)*

For candidates who:

define the term 'exchange rate' — **up to 2 marks**

distinguish between a fixed and floating exchange rate system — **up to 4 marks**

explain the essential elements of a floating exchange rate system — **up to 4 marks**

explain determinants of the exchange rate in a floating exchange rate system, eg: — **up to 6 marks per determinant discussed**

- trade flows (candidates may refer to influences on trade such as income trends, inflation, other determinants of competitiveness such as quality)
- investment flows
- speculation
- interest rates
- the possibility of managed flexibility (dirty floating)

use supply and demand diagrams to support their explanations. For each diagram, 1 mark for correct labelling of axes, 1 mark for correct labelling of information provided (eg the curves shown), 1 mark for coordinates, 1 mark for correct representation of information (i.e. appropriate shift of the curves). — **up to 4 marks per diagram to a maximum of 6 marks**

reward references to the UK economy and/or other economies

Where the candidate only makes reference to one determinant, he/she should be limited to a maximum of **12 marks.**

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

4 (b)	Evaluate the possible impact on UK macroeconomic performance of a sustained rise in the value of the pound sterling against the euro and the US dollar. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety. **Candidates would not necessarily have to consider all macroeconomic indicators to reach marks in the higher levels**.

To achieve **Level 4,** at least three issues should be presented and evaluated.

To achieve **Level 5,** there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks or more**.

Evaluation could be in terms of: the danger of making generalisations for macroeconomic indicators collectively, the extent and duration of the rise, whether elasticity conditions are favourable/unfavourable as far as the balance of payments and other indicators are concerned, how the rise is viewed by economic agents in relation to other considerations, e.g. MNCs making a broad assessment of an economy prior to any investment decisions, the extent to which producers respond positively to the impact of a rising exchange rate on export competitiveness, the strength/weakness of those parts of the economy not directly affected by exchange rate movements.

Issues and areas for discussion:

- what is meant by macroeconomic performance;
- significance of the eurozone and the USA in UK trade;
- significance of the general economic climate;
- numerical example of implications of a rise in the exchange rate;
- the balance of payments and the trade in goods, the trade in services (some candidates might single out tourism), potential overall impact on the current account, the potential impact on the capital account;
- the significance of supply and demand elasticity conditions for trade and hence other aspects of macroeconomic performance;
- significance of the exchange rate in relation to other determinants of competitiveness;
- extent and success of producers' efforts to counteract the potential negative impact on competitiveness, e.g. a renewed effort to close the productivity gap;
- the impact on domestic inflation of lower import prices and greater producer efficiency and hence the impact on future balance of payments performance;
- the £'s movement against other currencies and possible consequences of this for the UK economy (for example, new opportunities if there is a weakening of the £ against some other currencies);
- the potential impact on economic growth;
- the potential impact on employment/unemployment, eg possibly a weaker export-led multiplier;
- an assessment of the importance of the rise relative to other factors influencing investment decisions, eg by MNCs;
- the underlying strength of the UK economy.

STEMUP.CO.UK

Also give credit for:

- real world references;
- diagrams;
- an overall judgement on the issues raised;

Candidates should be limited to a maximum of **21 marks** if there is no reference to the UK economy.

USE THE LEVELS MARKING SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS
TOTAL FOR QUESTION 4: 50 MARKS

STEMUP.CO.UK

General Certificate of Education
January 2006
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

ECONOMICS **ECN6**

Unit 6 Government Policy, the National and International Economy

Monday 30 January 2006 9.00 am to 10.30 am

For this paper you must have:
- an 8-page answer book

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between different aspects of Economics.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

Advice
- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

STEMUP.CO.UK

SECTION A

Answer **all** parts of this question.

Total for this question: 50 marks

1 TRADE AND GROWTH

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

Extract A:

Extract A was a table of data.
It has not been reproduced here due to third-party copyright constraints.

Extract B: The pattern of trade

The pattern of trade between countries, based more significantly on comparative advantage than absolute advantage, emphasises some key contrasts between countries, not least of which are differences in the availability of resources such as capital and skilled and unskilled labour. A country may be able to produce a good more cheaply than another country, but countries' decisions to specialise are more often based upon considerations of opportunity cost. Such specialisation can increase world output.

More developed countries, with bigger stocks of capital and highly skilled labour, might be expected to specialise in high-technology, capital-intensive products, while less developed nations, with relatively plentiful, but less skilled, labour might specialise in labour-intensive products. If the pattern of trade matched the pattern of development, the least developed countries might specialise in primary products, while the most developed might trade services. However, generalisations are dangerous. Economies can change quickly, as can the level of involvement in world trade.

Source: adapted from BRIAN ELLIS, *International Economics*, Philip Allan Updates, 2004

STEMUP.CO.UK

Extract C:

Extract C was an extract of text.
It has not been reproduced here due to third-party copyright constraints.

Question 1

(a) Using **Extract A**, compare the changes in world GDP with changes in world exports for the period 1995 to 2002. *(4 marks)*

(b) **Extract B** (lines 1 and 2) suggests that the pattern of trade is 'based more significantly on comparative advantage than absolute advantage'. With the help of the data in **Extract B**, explain the distinction between comparative advantage and absolute advantage. *(6 marks)*

(c) Analyse the possible impact of a 'significant slowing down of US growth' (**Extract C**, lines 1 and 2) on the macroeconomic performance of countries such as Canada, Malaysia and Mexico. *(10 marks)*

(d) **Extract C** (lines 12 and 13) refers to a 'virtuous circle of trade liberalisation and economic growth'. Evaluate the case **for** and **against** greater free trade in the world today. *(30 marks)*

Turn over for the next question

STEMUP.CO.UK

SECTION B

Answer **one** question from this section.

Each question carries 50 marks.

2 (a) Explain the main causes of economic growth. *(20 marks)*

(b) A recent EU survey reported that income per head was significantly lower in Greece and Portugal than in the Netherlands and Ireland. Evaluate the view that living standards in the Netherlands and Ireland must therefore be higher than those in Greece and Portugal. *(30 marks)*

3 (a) Explain the possible demand-side **and** supply-side causes of unemployment. *(20 marks)*

(b) Discuss the view that, as an economy approaches full employment, inflation will inevitably accelerate. *(30 marks)*

4 (a) Explain how monetary **and** fiscal policies might be used to increase aggregate demand. *(20 marks)*

(b) In recent years in the UK, much greater emphasis has been given to the supply-side effects of fiscal policy. Evaluate the view that fiscal policy is only useful for its impact on the supply side of the UK economy. *(30 marks)*

END OF QUESTIONS

ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future if notified.

Copyright © 2006 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1.0: *0306*

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Economics 6141

ECN6 Government Policy, the National and International Economy

Mark Scheme

2006 examination – January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Copyright © 2006 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Advanced Level Economics

January 2006 **ECN 6**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 4 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 3. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 4. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

STEMUP.CO.UK

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

Level 1
Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.

0 to 6 marks *(Mid-Point: 3 marks)*

Level 2
A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately. **7 to 12 marks** *(Mid-Point: 10 marks)*

Level 3
A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.

13 to 20 marks *(Mid-Point: 17 marks)*

Level 4
Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.

21 to 26 marks *(Mid-Point: 24 marks)*

Level 5
Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision. **27 to 30 marks** *(Mid-Point: 29 marks)*

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
(ii) use of specialist vocabulary, where appropriate;
(iii) legibility of handwriting;
(iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

STEMUP.CO.UK

SECTION A

1 **Total for this question: *50 marks***

1 (a) Using **Extract A**, compare the changes in world GDP with changes in world exports for the period 1995 to 2002. *(4 marks)*

Award one mark for each valid point and one mark for supporting reference to the data. Points might include:

- the changes in world exports are much greater than the changes in world GDP;
- the volatility of both sets of data;
- the correlation of world exports of goods and world GDP, e.g. both have their best growth performance in 2000, their worst in 2001;
- the three categories of goods reflect to a large extent the trends in the world totals for exports and GDP.

A maximum of **2 marks** may be awarded if the candidate simply trawls through the data without showing any real understanding of what is being described.

A maximum of **2 marks** may be awarded if the candidate does not attempt any comparison.

MAXIMUM FOR PART (a) 4 MARKS

STEMUP.CO.UK

1 (b) **Extract B** (lines 1 and 2) suggests that the pattern of trade is 'based more significantly on comparative advantage than absolute advantage'. With the help of the data in **Extract B,** explain the distinction between comparative advantage and absolute advantage. *(6 marks)*

For candidates who:

explain the term 'pattern of trade'; **1 mark**

explain the distinction between comparative and absolute advantage, perhaps through use of a standard definition, e.g. comparative referring to the ability of a country to produce a good or service at a lower opportunity cost than another country; absolute referring to the ability of a country to produce a good or service using fewer resources than another country (**3 marks**); explanation of the significance of opportunity cost, e.g. that countries will benefit from trade if the exchange rate lies between their respective opportunity cost ratios (**2 marks**); the significance to economies of specialisation (**2 marks**); **up to 6 marks**

but maximum of 4 if an explanation is given for only one concept

use a numerical and/or graphical example to explain the distinction; **up to 4 marks**

identify some of the assumptions of the theory of comparative advantage. **up to 2 marks**

MAXIMUM FOR PART (b) 6 MARKS

STEMUP.CO.UK

1 (c) Analyse the possible impact of a 'significant slowing down of US growth' (**Extract C,** lines 1 and 2) on the macroeconomic performance of countries such as Canada, Malaysia and Mexico. *(10 marks)*

Candidates are likely to draw ideas from Extract C.

Issues and areas for discussion include:

- the potential impact on economic growth, jobs, the exchange rate, prices, the balance of payments, e.g. countries might expect less inward investment from the US, which might affect job creation, as might the prospect of fewer exports to the US. These factors could have a downward influence on the exchange rate and on the price level in other countries, while their balances of payments could move from surplus to deficit or have worsening deficits;
- a definition/explanation of economic growth;
- an explanation of macroeconomic performance;
- AD;
- the multiplier;
- the dangers of the USA being tempted into protectionists policies;
- the vulnerability of any country dependent on the US market for the sale of a high proportion of the output of a product which forms a major part of its economy;
- the search for alternative markets.

LEVEL 1
The candidate draws briefly from Extract C with little or no analysis and so displays little understanding of the arguments. **1 to 3 marks**

LEVEL 2
One or more indicators of macroeconomic performance are identified. In the lower half of the mark-band, some explanation of the chosen indicators is given. The analysis may be a little confused or incomplete but correct for the most part. In the top half of the band, at least two indicators must be included with a clear explanation and some use of economic terminology and concepts.

4 to 7 marks

LEVEL 3
At least two indicators of macroeconomic performance are well explained in a well organised answer. Good understanding and sound analytical skills are displayed. Economic terminology and concepts are well used. At the top of the band, there may be reference to recent developments, e.g. the current state of the US economy, the US balance of payments, examples of protectionism, the experience of the UK economy. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

STEMUP.CO.UK

1 (d) **Extract C** (lines 12 and 13) refers to a 'virtuous circle of trade liberalisation and economic growth'. Evaluate the case **for** and **against** greater free trade in the world today.

(30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more. Evaluation could be in terms of: whether or not the benefits are small or large for any one country, the outcome is still preferable to protection; the benefits of free trade for an economy can be transient unless that economy is flexible; whatever the overall benefits, there are bound to be winners and losers.

Issues and areas for discussion include:

- comparative and absolute advantage;
- protectionist policies;
- economic growth;
- employment/unemployment;
- efficiency/competitiveness;
- choice and quality;
- a spur to innovation;
- the balance of payments;
- economies of scale;
- benefits of some of the above to the control of inflation;
- living standards;
- income distribution;
- export-led multiplier;
- furthering an economy's progress in the globalisation process;
- the role of the WTO.

STEMUP.CO.UK

Also give credit for:

- reference to real world examples;
- diagrams;
- an overall judgement on the issues raised.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (d) 30 MARKS

TOTAL FOR QUESTION 1: 50 MARKS

STEMUP.CO.UK

SECTION B

Each question carries 50 marks

2 (a) Explain the main causes of economic growth.	*(20 marks)*

For candidates who:

define economic growth;	**up to 2 marks**
distinguish actual and trend growth;	**up to 2 marks**
use diagrams to support their definitions, e.g. PPC, LRAS, trend growth. For each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided (e.g. LRAS), **1 mark** for correct representation of information provided (e.g. a shift of a vertical LRAS or Keynesian version);	**up to 3 marks per diagram to a maximum of 6**
explain the potential significance of AD, perhaps with reference to monetary and fiscal policy so that higher actual growth is achieved by using more of the country's productive capacity as the multiplier process begins to take effect;	**up to 6 marks**
explain supply-side causes of economic growth, e.g. the availability of natural resources, investment (the additions to productive capacity), R&D and technological progress, the quantity and quality of labour, education and training. All these will help shift the PPF and the LRAS curves to the right. Depending on causes chosen, candidates might refer to supply-side themes such as incentives, efficiency, productivity, flexibility, mobility of resources, as well as to specific policies such as Labour's New Deal, welfare reform, the significance of direct tax changes.	**up to 6 marks per cause explained**

Reward reference to recent UK experience and/or that of other economies.

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

2 (b) A recent EU survey reported that income per head was significantly lower in Greece and Portugal than in the Netherlands and Ireland. Evaluate the view that living standards in the Netherlands and Ireland must therefore be higher than those in Greece and Portugal. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more. Evaluation could include: whatever its limitations as an adequate measure of living standards, income will be an important determinant of consumption; for income to help determine living standards, goods and services must be available, accessible and in adequate supply; difficulties of making international comparisons; the effectiveness/validity of the various measures of living standards.

Issues and areas for discussion:

- the concept of 'living standards';
- the significance of GDP in securing higher living standards;
- calculation of income per head;
- the limitations of this measurement of living standards;
- inflation adjustments;
- the pattern of production in each economy;
- the nature and extent of government spending;
- distribution of income, perhaps with reference to the Lorenz curve and the Gini coefficient;
- other measures of living standards, e.g. HDI (Human Development Index), quality of life indices;
- environmental considerations;
- the way in which increases in GDP are achieved and the impact of these on living standards, e.g. longer working week, reduced leisure opportunities;
- PPP (Purchasing Power Parity);
- accuracy/comprehensiveness of figures, e.g. exclusion of the 'do-it-yourself' economy, the informal economy;
- differences in national income accounting.

STEMUP.CO.UK

Also give credit for:

- references to the economies cited and/or other economies;
- use of diagrams;
- an overall judgement.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 2: 50 MARKS

STEMUP.CO.UK

3 (a) Explain the possible demand-side **and** supply-side causes of unemployment. *(20 marks)*

For candidates who:

explain labour market equilibrium/disequilibrium;	**up to 3 marks**
explain the measurements of unemployment, e.g. the claimant count and/or the LFS;	**up to 3 marks**
explain the concept of natural rate of unemployment;	**up to 4 marks**
explain demand-side causes, e.g. macroeconomic policy (e.g. higher interest rates influencing savings, credit based consumption, investment, while tighter fiscal policy might affect the willingness or ability to spend or to invest in the case of higher corporate taxation); the economic cycle; the housing cycle; trends in earnings;	**up to 6 marks per cause to a maximum of 12**
explain supply-side causes, e.g. an absence of incentives to work (e.g. there may be reference to higher income tax, higher benefits, income and substitution effects, the replacement ratio), inappropriate/inadequate skills, government policy, immobility/inflexibility, welfare dependency	**up to 6 marks per cause to a maximum of 12**

Give credit for use of diagrams (**3 marks** per diagram to a **maximum of 6**). For each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided (e.g. supply and demand curves), **1 mark** for correct representation of information provided (e.g. some supply-side policies moving the supply curve of labour to the right).

Reward references to the UK and/or other economies.

A maximum of **14 marks** may be awarded if a candidate deals only with demand-side or supply-side factors.

A maximum of **10 marks** may be awarded if no accurate distinction is made between demand-side and supply-side causes.

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

3 (b) Discuss the view that, as an economy approaches full employment, inflation will inevitably accelerate. *(30 marks)*

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more. Evaluation could include: the significance of the strength/weakness of the supply-side; other causes of inflation existing so that the fall in unemployment may not be the active ingredient; the nature of the authorities' responses to the perceived potential danger.

Issues and areas for discussion include:

- the concept of full employment;
- inflation;
- the potential for conflict between macroeconomic objectives;
- NAIRU;
- the Phillips Curve;
- why there might be an inverse relationship between unemployment trends and inflation trends;
- macroeconomic management;
- the role of the MPC;
- the economic cycle;
- factors conducive to low inflation, e.g. technology, outsourcing, globalisation, productivity;
- deflation;
- rational expectations;
- supply-side policies.

Also give credit for:

- reference to the UK and/or other economies;
- use of diagrams;
- an overall judgement.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 3: 50 MARKS

STEMUP.CO.UK

4 (a) Explain how monetary **and** fiscal policies might be used to increase aggregate demand. *(20 marks)*

For candidates who:

explain the nature of monetary policy and fiscal policy, AD, make a distinction between expansionary/contractionary fiscal policies; make reference to these policies in the context of the UK economy; **up to 6 marks**

but not all of these would necessarily have to be included to award maximum marks

explain the ways in which monetary policy can impact on AD, e.g. money supply and the transmission mechanism (the connection between changes in the stock of money in the economy and levels of income and output. Increased bank lending can lead to increases in both consumption and investment, then AD, and so to the level of production); interest rates; the exchange rate; **up to 6 marks**

per consequence explained to a maximum of 12

explain the ways in which fiscal policy can impact on AD, e.g. budgetary policy and automatic/built-in fiscal stabilisers v active/discretionary, the multiplier effect (e.g. government capital spending on roads, hospitals, schools initiating a multiplier process and hence helping to create jobs/income in construction and then jobs/income elsewhere in the economy); taxation; disposable income. **up to 6 marks**

per consequence explained to a maximum of 12

Give credit for use of diagrams (**3 marks** per diagram to a **maximum of 6**). For each diagram, **1 mark** for correct labelling of axes, **1 mark** for correct labelling of information provided (e.g. aggregate supply and demand curves), **1 mark** for correct representation of information provided (e.g. lower interest rates shifting the AD curve to the right; the movement of an economy nearer to its PPC as more resources become employed).

A maximum of **10 marks** may be awarded in the case of a candidate whose explanations are correct but has not recognised the use of the word 'increase' in the question

A maximum of **14 marks** may be awarded if a candidate deals only with monetary or fiscal policy.

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

4 (b) In recent years in the UK, much greater emphasis has been given to the supply-side effects of fiscal policy. Evaluate the view that fiscal policy is only useful for its impact on the supply side of the UK economy.

(30 marks)

Candidates may evaluate each of the issues they identify in turn and/or give some assessment of the arguments in their entirety.

To achieve **Level 4**, at least three issues should be presented and evaluated.

To achieve **Level 5**, there should, in addition, be an attempt to provide a more general evaluation of the arguments referred to, in order that a concluding judgement can be made by the candidate.

There must be evidence of evaluation for candidates to score **19 marks** or more. Evaluation could include: the enhanced importance of the MPC's role if the macroeconomic significance of fiscal policy is downgraded by the government; the macroeconomic implications of fiscal policy have to be recognised whatever the emphasis by any one government; the difficulty of isolating and evaluating the contribution of a point of emphasis in a particular policy to economic performance; the problems of fiscal policy, e.g. time-lags, conflicts within fiscal policy; the weakness of the multiplier in an open economy.

Issues and areas for discussion:

- the macroeconomic role of fiscal policy – demand management;
- the possible supply-side functions of fiscal policy, e.g. the quality and quantity of public services, quality of infrastructure, welfare reform, labour market policies, incentives using the tax system;
- microeconomic/macroeconomic distinctions;
- criteria for assessing economic performance;
- the multiplier;
- the role of the MPC in monetary policy;
- the potential impact on macroeconomic indicators of inadequate attention given to the macroeconomic perspectives of fiscal policy and/or to the impact of some of the microeconomic ambitions within fiscal policy, e.g. increased spending to enhance public services causing more public sector inflation;
- the possible consequences of fiscal imbalance.

Also give credit for:

- reference to the UK and/or other economies;
- use of diagrams;
- an overall judgement.

USE THE LEVELS MARKING SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

TOTAL FOR QUESTION 4: 50 MARKS

STEMUP.CO.UK

General Certificate of Education
June 2005
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

ECONOMICS ECN6
Unit 6 Government Policy, the National and International Economy

Monday 27 June 2005 Morning Session

In addition to this paper you will require:
an 8-page answer book.
You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ECN6.
- In **Section A**, answer **all** parts of the question.
- In **Section B**, answer **one** question.

Information
- The maximum mark for this paper is 100.
- Mark allocations are shown in brackets.
- This paper is synoptic. It assesses your understanding of the relationship between different aspects of Economics.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Advice
- You are advised to spend approximately 45 minutes on **Section A** and approximately 45 minutes on **Section B**.

STEMUP.CO.UK

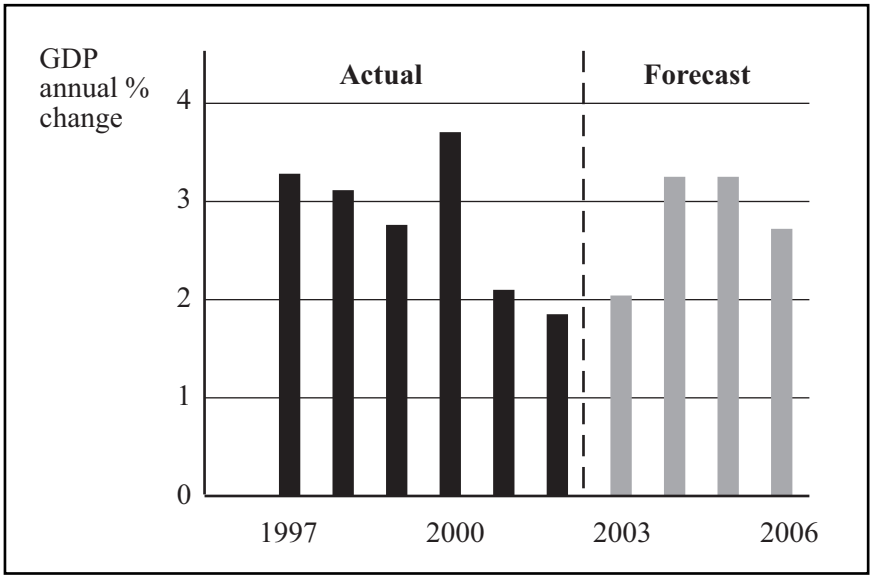
SECTION A

Answer **all** parts of this question.

1 ECONOMIC GROWTH **Total for this question: *50 marks***

Study **Extracts A, B and C**, and then answer **all** parts of Question 1 which follows.

Extract A: Actual and forecast growth of GDP, UK 1997–2006 (annual % change)



Source: adapted from *The Daily Telegraph*, 11 December 2003

Extract B: Causes and consequences of faster economic growth

There is a range of requirements for achieving faster economic growth. Saving needs to be stimulated in order to finance the investment needed for economic growth. Research and development (R & D) also need to be increased and high-technological industries targeted, perhaps with the help of government funding. Free international trade must be encouraged to allow exploitation of comparative advantage through specialisation. Improvements in the quality of education and training are also desirable. Finally, the economic climate needs to be favourable, both nationally and internationally, and appropriate demand management policies will be crucial here.

The benefits of the faster economic growth thus achieved will be evident for all to see: increased consumption possibilities, including greater welfare and support for the disadvantaged; more expenditure on education, health, roads and housing; and improvements in other macroeconomic indicators. Such benefits must be central to the growth debate to help balance the views of those who believe that the costs, such as the rapid depletion of natural resources, environmental degradation, and a poorer quality of life, are much greater.

STEMUP.CO.UK

Extract C: British is best

While America, Japan and half the Eurozone have suffered recessions, the British economy has, uniquely, grown uninterrupted for every single quarter since 1997.

Growth in our biggest trading area, the Eurozone, is expected to be just 0.5% in 2003. In the UK, real GDP growth is now expected to be 2.1%. This is close to the government's estimate of the economy's trend rate of growth and means a minimal output gap. Clearly, stronger growth elsewhere would improve the UK's growth prospects and allow the fullest exploitation of its supply-side improvements.

Source: adapted from the *Pre-Budget Report*, HM Treasury, December 2003

Question 1

(a) Using **Extract A**, describe the actual and forecast growth performance of the UK economy for the period 1997 to 2006. *(4 marks)*

(b) Explain the distinction between "real GDP growth" and the "trend rate of growth" (**Extract C**, lines 4 and 5). *(6 marks)*

(c) **Extract B** (line 1) refers to the "requirements for achieving faster economic growth". Analyse **three** causes of a more rapid rate of economic growth in economies such as the UK and USA. *(10 marks)*

(d) Using the data and your economic knowledge, evaluate the consequences of a sustained, high rate of economic growth. *(30 marks)*

TURN OVER FOR THE NEXT QUESTION

STEMUP.CO.UK

SECTION B

Answer **one** question from this Section.

Each question carries 50 marks.

2 (a) Explain the possible causes of a rise in the rate of inflation in an economy. *(20 marks)*

(b) In recent years, the priority in UK macroeconomic policy has been the control of inflation. Evaluate the likely economic consequences of this for the UK's economic performance. *(30 marks)*

3 (a) Explain the main economic reasons for government spending. *(20 marks)*

(b) The UK government indicated in 2003 that it needed to borrow £37bn to finance the budget deficit. To what extent, if any, is it important for a UK government to restore and maintain a balanced budget? *(30 marks)*

4 (a) Explain the likely determinants of exchange rates in a freely floating exchange rate system. *(20 marks)*

(b) "In January 2004, renewed concern over currency instability emerged as the dollar's collapse was accompanied by steep rises in the value of sterling and the euro."

Discuss the **advantages** and **disadvantages** of a floating exchange rate system in the light of such instability. *(30 marks)*

END OF QUESTIONS

ACKNOWLEDGEMENT OF COPYRIGHT-HOLDERS AND PUBLISHERS
Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future if notified.

Extract A: © Telegraph Group Limited (2003)

Extract C: Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.

Copyright © 2005 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Version 1.0: 0805

ASSESSMENT and QUALIFICATIONS ALLIANCE

General Certificate of Education

Economics 6141

ECN6 Government Policy, the National and International Economy

Mark Scheme

2005 examination - June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Copyright © 2005 AQA and its licensors. All rights reserved.

STEMUP.CO.UK

Advanced Level Economics

June 2005 **ECN 6**

Mark Scheme

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme:

(i) **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the data response question and part (a) of the essay questions adopts this approach. The questions do not generally require that the candidate demonstrates evaluative skills although some explanation and analysis may be expected. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 4 of this mark scheme.

(ii) **A 'levels' approach.** This approach is used for parts (c) and (d) of the data response question and part (b) of the essay questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 3. When using a 'levels' mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is shown on page 4. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

STEMUP.CO.UK

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

Level 1
Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question and its context. No satisfactory analysis or evaluation. Little, if any, appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of specialist vocabulary.
0 to 6 marks *(Mid-Point: 3 marks)*

Level 2
A few issues are recognised but there is only limited evidence of the candidate's ability to apply relevant economic concepts. An attempt is made to answer the question but there is little satisfactory analysis or evaluation. Some very limited appreciation of the inter-relatedness of economic issues, problems and institutions. A poorly organised answer which does not have a clear structure. Descriptions and explanations are sometimes hard to follow. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of specialist vocabulary is made but this is not always applied appropriately. **7 to 12 marks** *(Mid-Point: 10 marks)*

Level 3
A few issues are recognised. The candidate has attempted to apply relevant economic concepts and ideas to the question and its context. A reasonable understanding of some concepts and theories is demonstrated. However, the evaluation of the issues, arguments and evidence is limited or superficial. Some understanding of the inter-relatedness of economic issues, problems and institutions. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. Some use of specialist vocabulary which is applied appropriately.
13 to 20 marks *(Mid-Point: 17 marks)*

Level 4
Several relevant issues are identified. Good understanding of some economic concepts and principles is demonstrated. The candidate is able to apply these concepts and principles to the context to help answer the question. There is some appreciation of alternative points of view. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. Good understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. A wide range of specialist vocabulary is used with facility.
21 to 26 marks *(Mid-Point: 24 marks)*

Level 5
Several relevant issues are identified. Good understanding of economic concepts and principles is demonstrated throughout. The candidate is able to apply these concepts and principles to the context to help answer the question. There is an appreciation of alternative points of view. Good use is made of evidence and/or theoretical analysis to evaluate the issues and arguments identified. The candidate demonstrates the ability to synthesise the arguments presented and come to a reasonable conclusion albeit tentative. A clear understanding of the inter-relatedness of economic issues, problems and institutions is demonstrated. Shows the ability to think as an economist making very effective use of the economist's 'tool kit' of concepts, theories and techniques. Spelling is accurate and the standard conventions of punctuation and grammar are followed. The answer is well organised. Descriptions and explanations are expressed with clarity throughout. Extensive use of specialist vocabulary which is applied adeptly and with precision. **27 to 30 marks** *(Mid-Point: 29 marks)*

STEMUP.CO.UK

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I Where a relevant **ISSUE** is raised by the candidate.

K Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing Question 1 (d) and part (b) of the essay questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

(i) use of an appropriate form and style of writing to organise relevant information clearly and coherently;
(ii) use of specialist vocabulary, where appropriate;
(iii) legibility of handwriting;
(iv) accuracy of spelling, punctuation and grammar.

Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

STEMUP.CO.UK

SECTION A

1 **Total for this question: *50 marks***

1 (a) Using **Extract A**, describe the actual and forecast growth performance of the UK economy for the period 1997 to 2006. *(4 marks)*

Award up to 2 marks for each point made (one mark for identification and one mark for reference(s) to the data). For example:

- comments on the range of growth rates
- growth was highest in 2000
- with the exception of 2000, the actual rate of growth falls 1997 to 2002
- forecasts for 2004 to 2006 are higher than the actual growth of the earlier years 2001-2002
- the period is free of negative GDP growth
- any other valid point

Maximum of **2 marks** if the candidate simply trawls by quoting figures from the extract without showing any understanding or makes points not supported by the data.

Award **1 mark** if a candidate refers to decreases in GDP rather than in the rate of growth of GDP throughout the answer

MAXIMUM FOR PART (a) 4 MARKS

STEMUP.CO.UK

1 (b)	Explain the distinction between "real GDP growth" and the "trend rate of growth" (**Extract C**, lines 4 and 5).	*(6 marks)*

For candidates who:

define 'real' (1 mark) and offer further explanation (1 mark)	**up to 2 marks**
define the term 'GDP' (1 mark) and offer further explanation (1 mark)	**up to 2 marks**
explain the concept of 'trend rate of economic growth', perhaps distinguishing between actual and trend growth by reference to the output gap	**up to 4 marks**
include relevant and accurate diagrams, eg output gaps, PPF	**up to 2 marks**
include any other valid point (**1 mark** per point), eg reference to the UK economy, the economic cycle, the way in which economic growth is calculated	

MAXIMUM FOR PART (b) 6 MARKS

STEMUP.CO.UK

1 (c) **Extract B** (line 1) refers to the "requirements for achieving faster economic growth". Analyse **three** causes of a more rapid rate of economic growth in economies such as the UK and USA. *(10 marks)*

Issues and areas for discussion include:

- an explanation of economic growth
- the distinction between demand-side and supply-side factors
- investment
- R&D and technological progress
- quantity and quality of labour
- natural resources
- flexibility of markets
- mobility of resources
- the function of a system of incentives
- macroeconomic management
- the national and international economic climate
- free trade
- government initiatives
- productivity

Candidates should be rewarded for accurate and relevant diagrams and reference to the UK economy (or other economies).

LEVEL 1

The candidate makes limited and vague references to causes, copying from the extract, and showing no real understanding of economic growth or its causes. **1 to 3 marks**

LEVEL 2

Two or more causes are identified and clear explanations given. At the lower end of the band, there may be some confusion and/or incomplete explanations. At the higher end of the band, these inadequacies should not be found and there needs to be evidence of sound economic analysis and appropriate use of terminology. Candidates who show some understanding of growth but only go on to list a number of causes from the extract with little or no development should be limited to **4 marks.**

4 to 7 marks

LEVEL 3

Three causes are well explained. The answer is well organised, displaying good understanding and sound analytical skills. Economic terminology is well used. At the top of the band there is likely to be reference to the distinction between demand-side and supply-side factors, an understanding of the view that supply-side factors need to be in evidence if there is to be non-inflationary growth, perhaps with reference to the UK or other economies. **8 to 10 marks**

MAXIMUM FOR PART (c) 10 MARKS

STEMUP.CO.UK

1 (d) Using the data and your economic knowledge, evaluate the consequences of a sustained, high rate of economic growth. *(30 marks)*

It is anticipated that candidates will develop the various costs and benefits of the growth process identified in Extract B. There must be evidence of evaluation for candidates to score **19 marks** or above.

To achieve **Level 3**, there must be explanation and some evidence of the ability to analyse. For an award of **Level 4**, at least three consequences should be presented and competently evaluated. To achieve **Level 5**, answers should include an attempt to provide a more general evaluation of the consequences discussed in order that a concluding judgement can be made by the candidate.

Evaluation could include commenting on whether the growth referred to in the question is a global phenomenon or one confined to just a few countries or one part of the world; how regulated/controlled the growth process is, linked to the degree of government awareness of the costs and extent of response to such costs; whether or not economic development accompanies the growth process; the distribution of benefits; economic growth and population growth.

Issues and areas for discussion include:

- economic growth
- the growth and development issue
- GDP
- PPF
- LRAS
- the dangers of global generalisations
- living standards: qualitative and quantitative factors
- the possible significance of population growth
- distribution issues re both costs and benefits
- impact on quality of public services
- impact on infrastructure
- economic growth and employment/unemployment
- economic growth and prices
- economic growth and the balance of payments
- economic growth and the exchange rate
- the sustainability issue
- environmental degradation
- resource depletion
- externalities

Also give credit for:

- reference to data
- reference to economies
- use of diagrams

Other equally valid points may be discussed and should be given due credit.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (d) 30 MARKS

STEMUP.CO.UK

SECTION B

2 **Total for this question: *50 marks***

2 (a) Explain the possible causes of a rise in the rate of inflation in an economy. *(20 marks)*

For candidates who:

define inflation, eg a rise in the general level of prices (1 mark) causing a reduction in the internal processing power of money (1 mark)	**up to 2 marks**
explain inflation further, eg refer to the official measurement, how measurement takes place, what is measured, RPI v CPI, recent UK inflation performance	**up to 3 marks**
explain the potential significance of aggregate demand (AD) to the inflationary process	**up to 6 marks**
use an AD/AS diagram to illustrate how AD can cause inflation (1 mark for correct axes labelling, 1 mark for coordinates, 1 mark for correct shift of AD curve, 1 mark for correct labelling of curves) Maximum 2 marks if the shift shown is incorrect	**up to 4 marks**
explain the process through which rising costs can lead to inflation, perhaps with reference to the Phillips curve	**up to 6 marks**
use an AD/AS diagram to illustrate how rising costs can cause inflation (1 mark for correct axes labelling, 1 mark for coordinates, 1 mark for correct shift of AS curve, 1 mark for correct labelling of curves) Maximum of 2 marks if the shift shown is incorrect	**up to 4 marks**
explain the monetarist view of the causes of inflation, perhaps with reference to the quantity theory of money	**up to 6 marks**
explain other specific causes of inflation, eg expectations, a depreciating exchange rate	**up to 4 marks per explanation**

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

2 (b) In recent years, the priority in UK macroeconomic policy has been the control of inflation. Evaluate the likely economic consequences of this for the UK's economic performance.

(30 marks)

It is anticipated that candidates will emphasise in their answers the potential benefits of such a priority, given their knowledge of recent UK experience, and that benefits will be discussed in terms of other macroeconomic indicators. There must be evaluation for a candidate to be able to achieve **19 marks** or more.

To achieve **Level 3**, there must be explanation and some evidence of the ability to analyse. For an award of **Level 4**, at least three consequences should be presented and competently evaluated. To achieve **Level 5**, answers should include an attempt to provide a more general evaluation of the consequences discussed in order that a concluding judgement can be made by the candidate.

Evaluation could be in terms of drawing a distinction between short run and long run consequences; the eventual level of inflation given its rapid rise (high or low?); assessing the inflation problem in an international context; the condition of other macroeconomic indicators; the choice of anti-inflation policy and strength/weakness of the choice(s).

Issues and areas for discussion include:

- the nature of inflation
- measurement of inflation
- demand pull and cost push inflation
- other macroeconomic objectives/indicators
- consequences of failing to control inflation
- the way in which inflation is controlled
- use of demand management policies
- relevant UK experience
- the role of the MPC and use of interest rates
- use of supply-side policies
- short run v long run consequences
- the regional impact
- the impact on manufacturing (reference to the potential influence of interest rates on the exchange rate)
- benefits of giving priority to an anti-inflation policy, eg strengthening the foundations for long run growth, sustainable job creation, competitiveness helping to improve the balance of payments
- 'costs' in terms of short term impact on jobs and economic growth
- Phillips Curve
- expectations
- consequences of favouring other macroeconomic objectives, eg full employment, demand-led growth
- impact of a severe anti-inflation policy on household and business confidence

Also give credit for:

- use of diagrams

Other equally valid points may be discussed and should be given due credit.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

STEMUP.CO.UK

3 **Total for this question: *50 marks***

3 (a) Explain the main economic reasons for government spending. *(20 marks)*

For candidates who:

explain the nature of government spending, eg the capital/current spending distinction **up to 2 marks**

who identify examples of government spending, eg defence and education **up to 2 marks**

put spending into the context of fiscal policy (taxation and borrowing) **up to 2 marks**

refer to UK fiscal policy of recent years **up to 2 marks**

explain reasons for government spending, eg;

- provision/financing of public/merit goods/other goods, with reference to positive/negative externalities
- income redistribution/poverty alleviation
- macroeconomic stabilisation/demand management
- economic growth
- support to private sector investment

1 mark for identification of a reason and up to 7 further marks for its explanation

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

3 (b) The UK government indicated in 2003 that it needed to borrow £37bn to finance the budget deficit. To what extent, if any, is it important for a UK government to restore and maintain a balanced budget? *(30 marks)*

To be awarded **19 marks** or more, there must be i) evidence of evaluation, ii) reference to the UK economy.

To achieve **Level 3**, there must be explanation and some evidence of the ability to analyse. For an award of **Level 4**, at least three issues should be presented and competently evaluated. To achieve **Level 5**, answers should include an attempt to provide a more general evaluation of the consequences discussed in order that a concluding judgement can be made by the candidate.

Evaluation for this question could include the extent to which, if at all, the borrowing breaks any self-imposed or EU fiscal rules; the reasons for extra spending/tax cuts, leading to the need to borrow; how the borrowing, if at all, relates to the economic cycle; whether a balance is achieved for appearances sake (good housekeeping) when the economy could actually benefit from deficits; the difficulty of achieving balance.

Issues and areas for discussion include:

- budget balance and budget deficit
- PSNCR
- financing or eliminating a deficit
- recent UK experience
- source(s) of borrowing
- short run/long run methods of borrowing
- impact on money supply
- impact on interest rates
- crowding out
- code for fiscal stability (golden rule, sustainable investment rule)
- Stability and Growth Pact and implications for entry to the single currency
- impact on AD
- AD and inflation
- AD and the balance of payments
- impact on short/long run economic growth
- implications for future spending/ taxation policy
- borrowing in the context of the economic cycle
- National Debt
- assessment of reasons for increase spending/tax cuts
- impact on confidence domestic and international
- the benefits which come from balance eg greater national and international confidence in the government's management of the economy
- does 'balance' really matter?

Also give credit for:

- use of diagrams

Other equally valid points may be discussed and should be given due credit.

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

STEMUP.CO.UK

4 **Total for this question: *50 marks***

4 (a) Explain the likely determinants of exchange rates in a freely floating exchange rate system.
(20 marks)

For candidates who:

explain the concepts of 'exchange rate' and 'exchange rate systems', eg through use of a standard definition, distinguishing between the various types of systems — **up to 4 marks**

explain the relevance of supply and demand analysis to explain the basis for determination of exchange rates, including use of well-explained diagrams — **up to 4 marks**

explain specific determinants, eg;

- trade flows
- long term capital flows
- speculative movements
- expectations
- confidence/uncertainty
- domestic economic conditions having an indirect impact eg inflation
- interest rates

1 mark for identification of a determinant and up to 7 further marks for its explanation, including use of diagrams

MAXIMUM FOR PART (a) 20 MARKS

STEMUP.CO.UK

4 (b) "In January 2004, renewed concern over currency instability emerged as the dollar's collapse was accompanied by steep rises in the value of sterling and the euro."
Discuss the **advantages** and **disadvantages** of a floating exchange rate system in the light of such instability. *(30 marks)*

There needs to be evidence of evaluation if a candidate is to be awarded **19 marks** or more.

To achieve **Level 3**, there must be explanation and some evidence of the ability to analyse. For an award of **Level 4**, at least three consequences should be presented and competently evaluated (two advantages and one disadvantage or vv). To achieve **Level 5**, answers should include an attempt to provide a more general evaluation of the issues discussed in order that a concluding judgement can be made by the candidate.

For this question, evaluation could be in terms of the impact of currency instability on the stability of the world economy; the perceived attractions of the floating system in comparison to the potential weaknesses of a fixed system; the way in which central banks may be able to intervene effectively to reduce instability and hence the potential impact on economic performance of the countries affected.

Issues and areas for discussion:

- fixed v floating v managed flexibility systems
- the essential features of the alternative fixed exchange rate system
- appreciation/depreciation
- PPP
- reference to past experiences eg the ERM, the Bretton Woods system
- the possible use of official reserves (managed flexibility) but also reserves not being needed in a free floating system
- the benefits of an independent domestic policy to achieve internal economic objectives
- the absence of any anti-inflation discipline in a floating system
- greater incidence of crises under managed systems eg Black Wednesday
- alleged benefits for trade and investment flows arising from the greater certainty of fixed systems
- adjustment mechanism eg current account deficit > depreciation of the currency > greater competitiveness > improvement to balance of payments on current account
- possible significance of elasticity conditions
- assessment of the alternative fixed system in the context of current system and experiences

Also give credit for:

- use of diagrams
- reference to the recent experience of the UK economy and/or other economies

USE THE LEVELS MARK SCHEME ON PAGES 3 & 4

MAXIMUM FOR PART (b) 30 MARKS

STEMUP.CO.UK