

Mark Scheme (Results)

Summer 2018

Pearson Edexcel GCE AS Level
In Economics (8EC0)
Paper 02 The UK economy: Performance and Policies

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General Marking Guidance

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

Question Number	Answer	Mark
1(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • GDP is the total value of goods and services produced in an economy (1)	**(1)**

Question Number	Answer	Mark
1(b)	**Application 2** **Application** 1 mark for appropriate calculation, e.g. 1 872 714 / 65.1 (1) Answer = **28 766.73** (accept range between £28 766 to £28 767) Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
1(c)	**The only correct answer is A** **B** is not correct because an increase in unemployment will reduce real GDP per capita (this is a cause and not an effect of an increase in real GDP per capita) **C** is not correct because with an increase real GDP per capita, consumer confidence increases and therefore consumption **D** is not correct because with an increase in real GDP per capita, consumers have greater purchasing power and would spend more	**(1)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • Recession is negative economic growth/falling GDP for two successive/consecutive quarters (1)	**(1)**

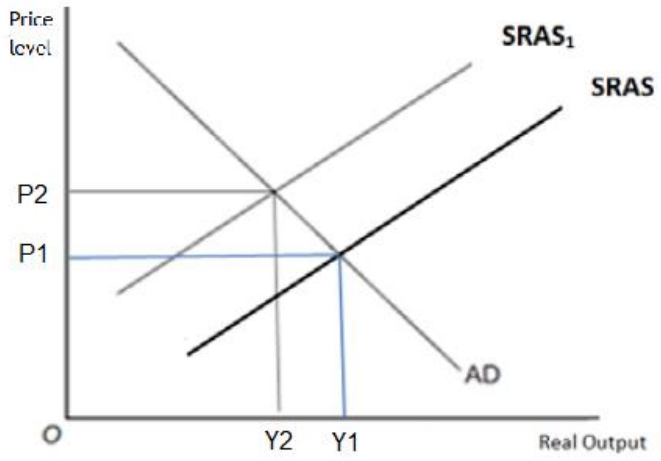
Question Number	Answer	Mark
2(b)	**Knowledge 2** **Knowledge/understanding** 1 mark for each characteristic and 1 mark for development, e.g. • Falling inflation (1) due to reduction in consumer expenditure (1) • Rising unemployment (1) due to less demand for workers caused by falling real output (1) • Falling profits/investment of firms (1) possibly leading to high level of business failures (1) • Increase in budget deficit/worsening of the fiscal position (1) due to a rise in government spending on benefits/a fall in tax revenues (1)	**(2)**

Question Number	Answer	Mark
2(c)	**The only correct answer is B** **A** is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap **C** is not correct because it shows actual GDP growth above trend GDP growth, therefore positive output gap **D** is not correct because it shows actual GDP growth on trend GDP growth, therefore no output gap	**(1)**

Question Number	Answer	Mark
3(a)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding** 1 mark for identifying one relevant factor, e.g. • Expected inflation rate (1) • Confidence (1) • Growth rate (1) • House prices (1) **Application** 1 mark for reference to the chart, for e.g. • Global Financial Crisis of 2008 (1) • Interest rate has decreased from 5.5% in 2008 to 0.5% in 2009 or has decreased by 5 percentage points (1) • Brexit decision 2016 (1) **Analysis** 1 mark, e.g. • Consumer and business confidence: can indicate turning points in the business cycle (1) • GDP growth rate and spare capacity: ensure that AD grows in line with productive potential (1) • House prices and share prices: that help decide household wealth, which translates through to borrowing and spending (1)	**(3)**

Question Number	Answer	Mark
3(b)	**The only correct answer is C** **A** is not correct because quantitative easing will increase AD and therefore economic growth **B** is not correct because quantitative easing increases the money supply as the central bank buys government bonds **D** is not correct because quantitative easing would lead to increase in AD and a fall in the level of unemployment as real output increases	**(1)**

Question Number	Answer	Mark
4(a)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • AD = C+I+G+(X-M) (1) • Total amount of planned spending on goods and services at any price level in an economy (1)	**(1)**

Question Number	Answer	Mark
4(b)	**Application 2** **Application** 2 marks for, • Correct leftward shift of SRAS (1) • Correct new equilibrium point showing higher price level and lower real output (1)  	**(2)**

Question Number	Answer	Mark
4(c)	**The only correct answer is B** **A** is not correct because a decrease in investment will reduce capital stock of the economy, reducing LRAS **B** is not correct because increase in level of unemployment benefits will reduce the incentive to work, reducing LRAS **D** is not correct as reduced access to credit would decrease investment as banks would be unwilling to lend	**(1)**

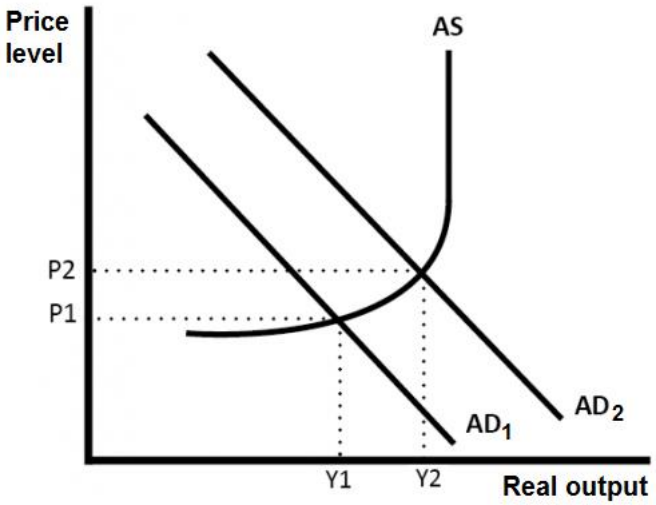
Question Number	Answer	Mark
5(a)	**The only correct answer is D** **A** is not correct because the change in forecast UK government spending is highest on social protection **B** is not correct because the forecast UK government spending in all areas has risen from 2015/16 **C** is not correct because forecast UK government spending on defence is less than twice as much as forecast spending on housing	**(1)**

Question Number	Answer	Mark
5(b)	**Application 2** **Application** 1 mark for appropriate calculation, e.g. (240 / 772) x 100 (1) Answer = **31.1** (accept range 31 to 31.1) Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
5(c)	**Knowledge 1** **Knowledge/understanding** 1 mark for definition, e.g. • Budget deficit is when government spending exceeds (tax) revenue/receipts	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** Identification of one reason (1) with development (1), e.g. • Different reasons for collection/different methods of collection: imply different results • It is becoming much more difficult to claim unemployment related benefits e.g. changes in the level of savings making it difficult to claim unemployment related benefits • Stigma issues when people are unemployed with no stigma for ILO but high stigma for unemployment related benefits • Increase in frictional unemployment which would increase ILO but may show no change in unemployment related benefits • State of the economy where more vacancies in a boom so harder to claim unemployment related benefits **Application** 2 marks for two data references from Figure 1 (1+1), e.g. Between 2010 and 2016: • Claimant count is below ILO (1) • Claimant count fell by around 48% / 0.7m (1) • ILO unemployment fell by around 35% / 0.9m (1) • In 2010, ILO unemployment was 2.5m (1) and CC unemployment was 1.5m (1)	**(4)**

Question Number	Indicative content	Mark

6(b)	**Knowledge 2, Application 2, Analysis 2**
	
	• Rise in value of houses will lead to wealth effect
	• An increase in householder's confidence
	• Encourage households to consume more (and/or save less)
	• Aggregate demand (AD) will increase
	• Lead to an increase in real output or a faster rate of economic growth
	• Credit for discussion of other effects besides wealth effect, e.g. impact on:
	  • Balance of Payments
	  • Unemployment
	  • Budget deficit
	  • Price level
	• Increase in investment from the construction industry
	• Diagram e.g.
	
	
	
	"£24 000 more than it was" / "annual growth increased from 5.2% in July 2016 to 5.6% in August 2016" / Data reference to Figure 1 data
	
	NB Candidates have to show impacts with accurate AD/AS diagram presenting a relevant change in AD to access Level 3
	
	NB Benefits to rising house prices can be seen as KAA and negative effect as Evaluation, or vice versa
		(6)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no link between causes and consequences.
Level 2	3–4	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or the answer may lack balance.
Level 3	5–6	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are applied appropriately to the broad elements of the question.

Question Number	Indicative content	Mark
6(b) continued	**Evaluation 4** • Houses are a significant component of consumers' wealth and effect large proportion of households (65% owner occupied) in the UK, which will have a major effect on AD • SR vs LR – "house prices will fall 1% across the UK in 2017" / wealth effects take time to trigger spending changes • Regional differences in impact – "House price growth was strongest in London" • "home ownership has risen to 78.6% among those aged 65-to-74" – it may not raise AD / consumption • Discussion of the significance of falling real wages • Significance of the elasticity of the AS curve • Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship • Lower confidence for areas where it will be harder to move to find jobs, because of price differentials • Effect on first-time buyers – may lead to their consumption falling (discussion of real wages and home ownership)	**(4)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/ reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evaluative comments supported by chains of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Answer	Mark
6(c)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark for identification, e.g. • Income (1) • Interest rates (1) • Unemployment (1) • Consumer confidence (1) **Application** 2 marks for data reference (1+1), e.g. • real incomes in the UK have fallen (1) by 10.4% (1) • unemployment fell (1) according to ILO and CC (1) • savings ratio has fallen (1) between 2010 and 2015 (1) • Britain's vote to leave the EU – Extract A Line 6 (1) **Analysis** Linked development (1+1), e.g. • Fall in income is likely to reduce savings leading to a fall in the marginal propensity to save • Lower unemployment is likely to cause a rise in consumer spending due to greater disposable incomes, leading to fall in savings ratio	**(5)**

Question Number	Answer	Mark
6(d)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** 2 marks for, e.g. • Definition/understanding of the multiplier (1) • Identification of factors which can cause the multiplier to rise (1+1) **Application** 1 mark for each data reference from Figure 2 or linked application (1+1), e.g. • savings ratio decreased from 11.5% in Q1 of 2010 (1) • to approximately 5.7% in Q1 of 2016 (1) • Use of multiplier formula (2) • application by means of simple numerical example (up to 2 marks) **Analysis** 1 mark for linked development of each factor (1+1), e.g. • A fall in withdrawals from circular flow of income will lead to a rise in the value of the multiplier (1) • An increase in mpc will cause the value of the multiplier to rise (1)	**(6)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Effects for employment: • "Work remains the most common reason for long-term migration (312 000)" – this is most likely to lead to an increase in employment • "182 000 of these coming with a definite job" – these migrants could fill those vacancies that cannot be filled by indigenous workers • Increased size of population means that there is increase in supply of labour, thus reducing wage rate and increasing demand for labour • Increased consumer spending from an increased population means more jobs are created • Increased demand for public services creating an increased demand for public sector workers Effects for unemployment: • "130 000 looking for work" – these migrants could displace the current indigenous workers • "10 547 people granted asylum" / 80 000 family members – surplus labour in the market as they might attempt to join the labour market but with inappropriate skills **NB Answer must refer to both *employment and unemployment* to access Level 3**	**(9)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(e) continued	**Evaluation 6** Points may include: • Magnitude and the significance of net migration – the figures on emigration have not been provided • "Long-term migration to the UK for study was estimated to be 163 000" – so may only be short-term migrants; also it is not sure they will remain in the UK after study • If the UK economy starts to grow, it can take on more labour without increasing unemployment • Evidence might be inaccurate, e.g. reason for migration is a very loaded question/inadequate data – it does not indicate if there has been an increase or decrease in the figures shown • Depends on the skills of migrants • "Dependents" may or may not have an effect • Depends on the percentage of asylum seekers granted leave to remain (Extract B) • Different industries may be affected differently	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.

Question Number	Indicative content	Mark
6(f)	**Knowledge 4, Application 4, Analysis 6** • Understanding / identification of government policies as fiscal policy or supply-side policy • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Investment in education and training to provide a more skilled workforce through increases in the level of human capital • Changes in minimum wage to incentivise employment • Reduction in unemployment and associated benefits to increase incentive to find work • Grants/subsidies/tax breaks to firms • Reduction in tax rates to encourage firms to expand or set up in UK, therefore increasing employment • Reduction in income tax creating a much larger incentive to work, increasing consumption and therefore, employment • Policies to increase real wage flexibility e.g. helping to reduce real wage unemployment • Tax breaks to firms who set up in depressed areas / giving some financial assistance to unemployed workers who move to areas with high employment • Government improving the labour market flexibility by making it easier to hire and fire workers may encourage more job creation • Increase in the provision of free childcare and other measures to increase the activity rate **NB Answer must be linked to *government* policies to access Level 3 or above.** **NB Answer must be linked to *employment* to access Level 3 or above.**	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two-stage chain of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(f) continued	**Evaluation 6** • Magnitude of the policy change • Conflicts between the policies • Depends if there is spare capacity • Creditworthiness of the UK government • Conflicts with other UK economic objectives • Discussion of effectiveness of individual policies • External factors beyond UK government's control, e.g. slowdown in global economy • Time lags (for e.g. education takes a long time to have impact on productivity)/implementation lags Government's budget deficit makes it difficult to pay for large investments or offer significant grants/tax breaks	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

Question Number	Indicative content	Mark
6(g)	**Knowledge 4, Application 4, Analysis 6,** • Implicit or explicit identification of the various UK's macroeconomic objectives • Understanding of inflation • May reduce growth owing to costs of inflation • Reduction in purchasing power and real incomes • Equality e.g. effect on those who have fixed incomes (are not protected by inflation) who are often the poorest • May make the national debt smaller in real terms making it cheaper to finance and pay back • Reduction in competitiveness of British goods which worsens the current account of the balance of payments deficit and reduces international competitiveness • Unemployment may rise through increased levels of inefficiency and stagflation / using a Phillips curve • Higher inflation associated with increasing AD may have detrimental impact on environment • Possible beneficial effect on the environment as economic growth slows • Loss of both business and consumer confidence • The self-reinforcing effect on inflation through expectations: higher inflation as consumers get used to higher levels of inflation, they demand high wages to protect buying power of incomes **NB KAA can be awarded for positive impacts on the objectives and evaluation as the negative impacts or vice versa**	**(14)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
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Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.

Question Number	Indicative content	Mark
6(g) continued	**Evaluation 6** • Depends on the cause, (e.g. cost push or demand pull) duration and magnitude of inflation – may be discussed in recent context of the UK / using AD AS diagram • Inflation might not translate through to higher wages and unemployment if the workforce has little power • If growth is low, slightly higher inflation is worth the risk to avoid deflation or depression • Impact depends on the relative inflation rates • Impact of high inflation might depend on policy response - interest rates may have to be raised • Other factors may have a larger effect: exchange rates or other macro objectives (ceteris paribus) • Possible beneficial effect on the environment	**(6)**

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.

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