Mark Scheme (Results)

Summer 2019

Pearson Edexcel GCE AS Level
in Economics A (8EC0)

Paper 02 The UK economy: performance and policies

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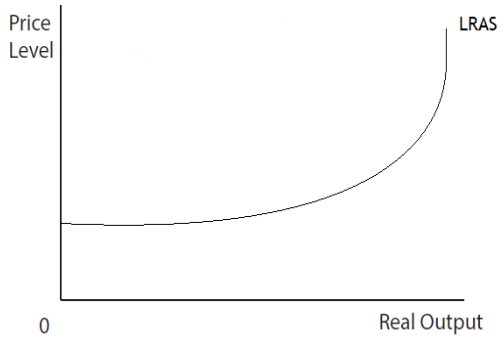
General marking guidance

- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- 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/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.
- 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. • Injection is money flowing into the circular flow of income/economy (1) • Comprises of investment, government spending and exports (1) • Injection in this context is government spending / investment (1)	**(1)**

Question Number	Answer	Mark
1(b)	**Application 2** **Application:** 1 mark for appropriate calculation, e.g. £44.1bn : £9.3bn (1) Answer = 4.7 or 4.74 Award 2 marks for correct answer Accept between 4.7 and 4.75	**(2)**

Question Number	Answer	Mark
1(c)	**The only correct answer is D** **A** is not correct because a decrease in the marginal propensity to save will increase value of the multiplier **B** is not correct because a decrease in the marginal propensity to tax will increase value of the multiplier **C** is not correct because an increase in the marginal propensity to consume will increase the value of the multiplier	**(1)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge:** e.g. possible diagram  	**(1)**

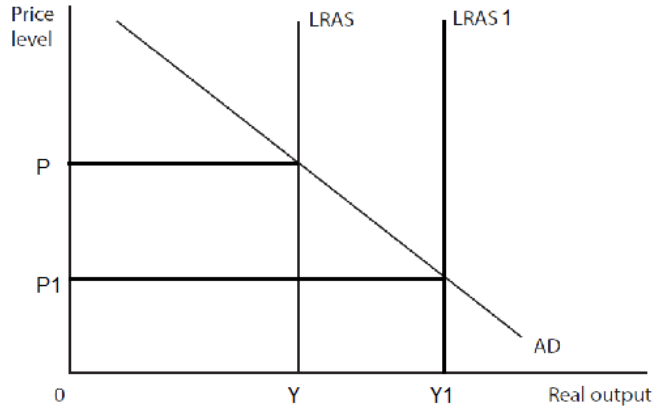
Question Number	Answer	Mark
2(b)	**Knowledge 2** **Knowledge/understanding:** 2 marks (1+1) for, e.g. • Equilibrium level of output can occur below the full employment level of output / the economy is not operating at full capacity/employment (1) • There is a negative output gap in the economy (1) • Award use of a LRAS diagram to illustrate spare capacity / the economy is operating at the elastic segment of LRAS (1) • Award the use of a PPF diagram to illustrate spare capacity / economy is operating inside the PPF (1) • Under-utilisation of the factors of production / the resources not being used to their full potential (1) so there is room to increase supply/output (1)	**(2)**

Question Number	Answer	Mark
2(c)	**The only correct answer is D** **A** is not correct because changes in competition policy shifts the long-run AS **B** is not correct because changes in relative productivity shifts the long-run AS **C** is not correct because changes in the cost of raw materials shifts the short-run AS	**(1)**

Question Number	Answer	Mark
3(a)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one relevant factor, e.g. • Increased tax revenue/ lower welfare payments (1) • Increase in disposable income (1) • Less potential output will be lost (1) • Increase in consumption/AD/GDP (1) **Application:** 1 mark for reference to the chart, for e.g. • Unemployment rate has fallen (1) • Unemployment rate has decreased from nearly 8.3% in 2012 to around 4.3% in 2018 or has decreased by 4 percentage points (1) **Analysis:** 1 mark for linked development, e.g. • Budget deficit would decrease (1) • Confidence/consumption increase (1) • Less waste of scarce resources / fall in spare capacity (1)	**(3)**

Question Number	Answer	Mark
3(b)	**The only correct answer is A** **B** is not correct because decrease in quantitative easing will reduce AD and increase the unemployment rate **C** is not correct because an increase in the government payments to the unemployed will reduce the incentive to work, reducing AS and increasing the unemployment rate **D** is not correct because an increase in the UK base interest rate will increase the cost of borrowing, thus reducing AD and increasing the unemployment rate	**(1)**

Question Number	Answer	Mark
4(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Price level is the **average** of the current prices of goods and services in the economy (1) • CPI or RPI (1) **NB Do not accept inflation**	**(1)**

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

Question Number	Answer	Mark
4(c)	**The only correct answer is A** **B** is not correct because an increase in indirect taxation is an example of contractionary fiscal policy **C** is not correct because an increase in interest rate is an example of contractionary monetary policy **D** is not correct because an increase in the regulation of markets is example of market-based supply side policy	**(1)**

Question Number	Answer	Mark
5(a)	**The only correct answer is A** **B** is not correct because an increase in house prices will lead to wealth effects and not an increase in income **C** is not correct because an increase in house prices will raise consumer confidence and increase consumption **D** is not correct because an increase in house prices will lead to positive wealth effects, which will lead to greater spending by existing homeowners	**(1)**

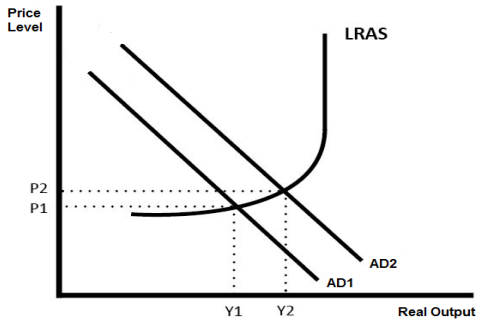
Question Number	Answer	Mark
5(b)	**Application 2** **Application:** • 2015: (200 141/189 709) x 100 = 105.5 or 106 (1) • 2016: (215 127/189 709) x 100 = 113.4 or 113 (1)	**(2)**

Question Number	Answer	Mark
5(c)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • An economic data figure that reflects price/quantity compared with the base year (1) • Shows percentage change (increase or decrease) in price/quantity from the base year (1)	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** Identification of impact (1) with development (1), e.g. • Imports relatively more expensive (1) • Leading to (cost push) inflation (1) • Exports are relatively cheaper (1) • Leading to (demand pull) inflation (1) **Application** 2 marks for two data references (1+1), e.g. • There has been fall in the exchange rate/value of the pound/weaker pound (1) • UK is a net importer of food that has a relatively inelastic demand (1) • Food prices have increased by 3.5 percentage points (1) • Inflation has increased by 1 percentage point since the start of 2017 (1) • CPI has exceeded the 2% target (1)	**(4)**

Question Number	Answer	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two effects (1+1) for, e.g. • Real value of personal debt falls • MPC raises base rate of interest • An increase in income inequality • Worsening of the current account • Fall in real wages/purchasing power **Application** 1 mark for each data reference from Extract A or linked application (1+1), e.g. • Increase in size of personal debts as consumers are using credit cards and taking out short-term loan (1) • Base rate of interest increased by 0.25 percentage points to 0.5% in November 2017 (1) • Low fixed income households are left with very little money to spend on relatively more expensive items/ spend more on food (1) • Inflation is expected to rise by 3% (1) and wages are only expected to increase by 1% (1) / wages growth lower than inflation (1) **Analysis** 1 mark for linked development of each effect (1+1) e.g. • Borrowers will benefit as the real value of their loan repayments are reduced over time (1) • Increases the cost of borrowing / reward for saving, hence consumption falls (1) • People on low fixed incomes spend larger proportion of income on necessities (1) • Exports become less internationally competitive (1) • Fall in real wages / purchasing power implies lower confidence, lower consumption and lower standard of living (1) **NB Award up to 4 marks for one effect well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Answer	Mark
6(c)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark for identification, e.g. • To ensure that inflation/cost of living/CPI basket is accurately measured (1) • To ensure that consumption trends/spending are reflected (1) • To adjust the weightings in the CPI basket (1) **Application** 2 marks for 2 relevant data references (1+1), e.g. • Inclusion of non-dairy milk (1) / jigsaw puzzles (1) / child scooters (1) / cycling helmets (1) • Exclusion of menthol cigarettes (1) / apple cider (1) / child swings (1) / basic mobile phones (1) • A move towards health, fitness and gluten-free products (1) **Analysis** Linked development (1+1), e.g. • Technological advancements (1) implies consumers switch to newly developed goods and services (1) • Consumer tastes change frequently (1) but the CPI basket is updated annually (1) • Consumers could have switched away (1) from those goods and services that have increased in price (1)	**(5)**

Question Number	Indicative content	Mark
6(d)	**Knowledge 2, Application 2, Analysis 2** • An injection into the circular flow of income • Economic growth is the increase in real GDP / increase in productive capacity of the economy • Positive relationship between an increase in exports and economic growth • Reference to the multiplier • Exports is a component of AD • AD will increase • Economic growth / real output will increase • Figure 3: since mid-2016, exports grew due to the fall in the exchange rate of the pound as a result of the referendum vote  **NB Candidates must answer with an accurately drawn AD/AS diagram presenting an increase in AD to access Level 3**	**(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(d) continued	**Evaluation 4** • Exports are only a small component of AD • Invetment might be more significant as it is 10% to 15% of AD – "Economic growth is expected to speed up again as investment rises" • Exporters are vulnerable to changes in demand in other countries and exchange rates which are out of UK's control – "which is largely due to the fall in the value of the pound" • Figure 3 – UK exports have not risen significantly since the start of 2017 • Depends on other factors in the economy, such as imports, government spending and consumption • Significance of the global economic recovery in increasing exports	**(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	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** Understanding of the term GDP / living standards Limitations of comparison may include: • Percentage changes are misleading without any reference to total GDP • Presence of an informal and unpaid economy will imply that some output is unrecorded as it is not bought or sold and there is no resulting income – "size of informal economy of developing countries was nearly five times more than that of the UK" • Differences in distribution of income – "growth varies across the country with jobs and wages distributed unevenly" • Quality of life issues such as spending on health and education – impact is difficult to measure • Subsistence, barter and the hidden economy will undervalue the real output and national income shall not reflect true living standards • Currency values do not effectively calculate an accurate purchasing power parity / exchange rates might not accurately reflect differences in purchasing power of currencies • Population growth in developing countries may account for most growth in GDP • Spending on investment goods may raise future living standards at the expense of the current • Methods of calculation and reliability of data • Size of the public sector spending which may or may not improve the standard of living Reference to Figure 4 – UK economic growth is lower than developing countries throughout the years / "the quality of economic growth needs to be measured"	**(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: • Ease of using GDP data for comparison over time • Benefits of using GDP for comparison – standard measure and well understood • GDP is internationally recognised and still possibly the best measure available for comparison • Other measures might be better, e.g. GDP per capita gives an indication of average incomes, which is a key determinant of living standards • Standard of living is subjective and it cannot be measured effectively and accurately	**(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** KAA: • Interest rate is used by MPC of the Bank of England • AD/AS diagram showing a change in AD and/or AS consistent with analysis • Identification of low and stable inflation as a government objective / inflation target • Use of Figure 1 to support arguments for using a contractionary monetary policy (in 2017) • Award arguments which consider expansionary / contractionary policy to achieve inflation target using Figure 1 • High interest rate discourage borrowing by both households and firms as it increases the cost of borrowing, thus reducing inflationary pressures • Increasing rate of saving (the opportunity cost of spending has risen), which will slow the economy • Rise in mortgage interest repayments will reduce homeowners' real "effective" disposable income. Increase in mortgage costs would reduce market demand in housing market, reducing inflation • Business investment may also fall, as the cost of borrowing funds will surge. Planned investment projects will now become unprofitable and, as a result, AD will fall, reducing inflationary pressures • Higher interest rate increases the value of pound due to hot money flows; (X-M) component of AD falls, reducing inflationary pressures **Evaluation 6** • Impact depends on the magnitude of the change in the interest rate • Time lag factor – changes may take a long time to feed through into inflation • Higher rates may mean lower investment which reduce LRAS, increasing inflationary pressures • Many mortgages and loans are on a fixed rate; the change in base rate may have little impact • Commercial banks may not change their rates • Impact from change in AD will depend upon position on the LRAS curve / spare capacity • External factors are beyond Bank of England's control – Extract A suggests inflation caused by rising food prices due to the fall in exchange rate • Conflicts with macroeconomic objectives / policies • Depends on consumer and business confidence, e.g. animal spirits, size of the multiplier	**(20)**

Knowledge, application and analysis		
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.

Evaluation		
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,** KAA: • Understanding of economic growth objective • Implicit or explicit identification of the UK's macroeconomic objectives • Relevant diagram, e.g. AD/AS diagram showing rightward shift in AD and/or AS curve • Potential conflicts include: • Inflation rising as full capacity is approached – bottlenecks may arise where some restrictions in the supply chain cause cost and wage pressures • Balance of payments position may deteriorate as incomes rise and more imports are demanded as UK has a high marginal propensity to import • Growth should result in higher average living standards, but may not deliver a more fair or equitable distribution of income and wealth as rich tend to get rich faster than the poor do • Increased growth tends to lead to high external costs / deterioration of the environment from congestion and pollution **Evaluation 6** • Significance of the stage in trade cycle which the country is in, and implications for elasticity of AS • If it is supply side growth (rather than demand-side) then fewer conflicts with other objectives • Initial state of inflation: reference to Figure 1 • The rate of actual growth in comparison to the growth of the productive capacity • Proximity to full employment level of output • Full employment/fiscal position should not conflict with economic growth • Increase in AS tends to happen in the longer run • Extent of domestic economy's capacity to meet rising demand (i.e. if economy can supply wants) • Extent of country's international competitiveness • Extent of effectiveness of environmental policies • Balance of payments position may improve if it is export-led growth / if generated through increase in productivity (such as through investment) • Growth may lead to higher government revenues and scope to improve polluting old technologies • Developed economies may use green technology	**(20)**

Knowledge, application and analysis		
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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.