Mark Scheme (Results)

Summer 2024

Pearson Edexcel GCE AS Level
In Economics A (8EC0)
Paper 02 The UK Economy – Performance and Policies

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.

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Question Number	Answer	Mark
1(a)	**The only correct answer is A** **B** is not correct because this is when actual economic growth is less than potential economic growth **C** is not correct because this is when actual economic growth is greater than potential economic growth **D** is not correct because this is the increase in productive capacity of the economy	**(1)**

Question Number	Answer	Mark
1(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one limitation, e.g. does not consider • exchange rates (1) • population growth (1) • presence of informal and unpaid economy (1) • subsistence, barter and the hidden economy (1) • income inequality/distribution of income (1) **Application:** 1 mark for reference to the information provided for e.g. • Real GDP increase in developing countries is higher than developed countries (1) / • Difference of 2.9 pp in growth rates (1) • Reference to own example (1) **Analysis:** 1 mark for linked development, e.g. • Exchange rates might not accurately reflect the differences in purchasing power of currencies (1) • Population growth accounts for most of the growth in developing countries (1) • Presence of informal and unpaid economy will imply that some output is unrecorded (1) • Subsistence, barter and the hidden economy will	

	undervalue real output (1) • In some countries, wealth is concentrated in the hands of a few high income households (1)	**(3)**

Question Number	Answer	Mark
2(a)	**Knowledge 1** **Knowledge:** 1 mark for definition, e.g. • It is the proportion of extra income that is spent on consumption (1) • The additional consumer spending from an increase in national income (1) • Change in consumption/change in income (ΔC/ΔY)	**(1)**

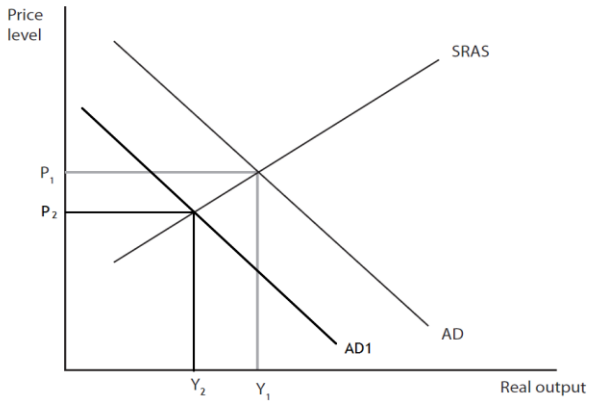
Question Number	Answer	Mark
2(b)	**Knowledge 2** **Knowledge/understanding:** 2 marks for, e.g. • Increase in employment/disposable income (1) so increases purchasing power/greater affordability (1) • Lower interest rates (1) so reduces the cost of borrowing/reward for savings (1) • Increase in consumer confidence (1) due to greater job security and raises consumer spending (1) • Positive wealth effects (1) so increases confidence and raises consumer spending (1)	**(2)**

Question Number	Answer	Mark
2(c)	**The only correct answer is D** **A** is not correct because this figure is determined by (1-0.8) **B** is not correct because this figure is determined by (1x0.8) **C** is not correct because this figure is determined by (1/0.8)	**(1)**

Question Number	Answer	Mark
3(a)	**The only correct answer is C** **A** is not correct because between September 2013 and September 2016, there were over 150 000 more people entering the UK **B** is not correct because immigration to the UK is likely to affect the country's long-run AS curve **D** is not correct because emigration throughout the given period has remained relatively stable	**(1)**

Question Number	Answer	Mark
3(b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one likely effect, e.g. • Increase employment (1) • Increased demand for labour (1) • Increased supply of labour (1) **Application:** 1 mark for reference to the chart, for e.g. • Immigration to the UK fell after the financial crisis/ EU referendum (1) / • Immigration increased once the economy started to recover from the financial crisis (1) • Emigration increased from 350 000 to 400 000 between September 2016 and September 2019 (1) **Analysis:** 1 mark for linked development, e.g. • Increased size of population (1) • Increased consumer spending will create more jobs (1) • Increased demand for public services (1) • Immigrants may fill job vacancies that domestic people are unable to fill (1) **NB Accept references made to either the impact of immigration or emigration on employment**	**(3)**

Question Number	Answer	Mark
4(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Increase in the capital stock of the economy (1) • An injection into the circular flow of income (1) • Spending by firms on capital goods (1)	**(1)**

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

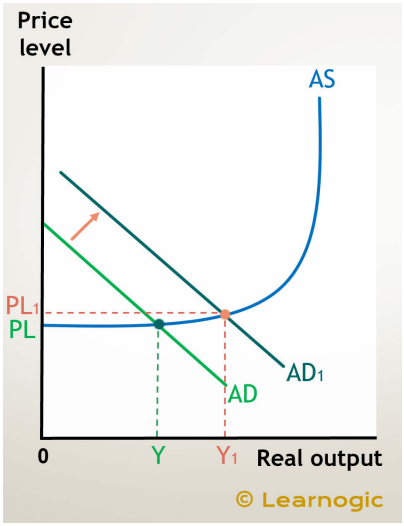
Question Number	Answer	Mark
4(c)	**The only correct answer is A** **B** is not correct because this will reduce cost of production for firms leading to an increase in investment **C** is not correct because this will increase revenues for firms leading them to increase investment **D** is not correct because firms will increase investment as they expect future demand to rise	**(1)**

Question Number	Answer	Mark
5(a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • When government spending is greater than taxation (1)	**(1)**

Question Number	Answer	Mark
5(b)	**Application 2** **Application:** (44.9 / 83.6) x 100 (1) Answer = 53.71 (also allow 54 / 53.7) Award 2 marks for correct answer	**(2)**

Question Number	Answer	Mark
5(c)	**The only correct answer is B** **A** is incorrect as it will increase the budget deficit **C** is incorrect as it represents a worsening of the current account position of the balance of payments **D** is incorrect as it represents an improvement of the current account position of the balance of payments	**(1)**

Question Number	Answer	Mark
6(a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • The percentage (1) change/increase in the average price level of an economy (1) **Application** 2 marks for data references from Figure 1, e.g. • The rate of inflation was increasing (1) between 2016 and 2017 (1) • Between 2016 and 2017, the rate of inflation had increased by nearly two (1) percentage points (1) • Disinflation between 2009 and 2010 (1) where the average price level increased at a slower rate (1) • Highest rate of inflation was in 2012 (1) at 5% (1) • Inflation rate was 0% in 2016 (1)	**(4)**

Question Number	Indicative content	Mark
6(b)	**Knowledge 2, Application 2, Analysis 2** • An increase in real wages will lead to an increase in consumer expenditure • Consumption is a component of aggregate demand • Aggregate demand will increase from AD to AD1 • Inflationary pressures will increase from PL to PL1 • Real output will increase from Y to Y1 • Consequently, unemployment will decrease • Figure 1: In 2019, real wage growth increased by 2% Diagram, e.g.:  **NB Candidates must answer with an 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(b) continued	**Evaluation 4** • Consumption is largest component of aggregate demand, therefore will have a significant impact • Significance of the elasticity of the AS curve and the state of the UK economy • UK consumers have financed their spending by borrowing – "Borrowing on credit cards and personal loans has increased above the levels seen before 2008": it creates an unstable and unbalanced economy • Depends on other factors in the economy, such as net trade and investment • Nominal wage growth may be more significant in determining impact on consumption: Figure 1	**(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 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two characteristics (2) for, e.g. • Falling inflation (1) • Rising unemployment (1) • Falling profits/investment of firms (1) • Rising budget deficit/worsening of fiscal position (1) • Reduction in the base interest rate (1) • Loss of consumer/business confidence (1) **Application** 1 mark for each data reference (1+1), e.g. • Figure 1: inflation fell by around 3.3 percentage points between 2009 and 2010 (1) • Figure 2: UK was in recession between Q2 2008 and Q3 2009 (1) • Extract A: unemployment rate peaked at 8.5% in 2009 (1) • Extract A: Bank of England reduced the base interest rate from 5.25% in February 2008 to 0.5% in March 2009 (1) **Analysis** Linked development (1+1) e.g. • Falling inflation due to lower consumer confidence and a reduction in consumer expenditure (1) • Rising unemployment due to lower demand for workers caused by falling real output (1) • Falling profits/investment of firms possibly leading to high level of business failures (1) • Rising budget deficit/worsening of the fiscal position due to a rise in government spending on benefits/a fall in tax revenues (1) • Reduction in the base interest rate will encourage borrowing and consumption/investment (1) **NB Award up to 4 marks for one characteristic well developed (1kn + 1ap + 2an)**	**(6)**

Question Number	Answer	Mark
6(d)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for e.g. • Explanation of inflation (1) • Understanding of exchange rate (1) • AD shifts outwards / SRAS shifts inwards (1) **Application** 2 marks (1+1), for e.g. • Weaker pound due to lack of confidence as a result of the UK's decision to leave the EU (1) • X-M as a component of AD increases (1) • Accurately drawn AD/AS diagram (1) • More injections/less leakages from CFI (1) **Analysis** 2 marks for linked development (1+1), e.g. • Imports become relatively more expensive (1) • Exports become relatively cheaper (1)	**(5)**

Question Number	Indicative content	Mark
6(e)	**Knowledge 3, Application 3, Analysis 3** • Economic growth/recession/output gap/spare capacity – use of Figure 2 OR reference to own knowledge (e.g. global health crisis): ensure that AD will grow in line with productive potential • Forecast rates of inflation/inflation expectations – use of Figure 1 OR reference to recent inflation trends • Level of confidence in the economy: business and consumer confidence – "the uncertainty around the UK's decision to leave the EU": can indicate turning points in the business cycle • Unemployment levels – "UK unemployment rate peaked at 8.5% in 2009 but has fallen to 4% in 2019, the lowest since the mid-1970s" • Exchange rate – "the fall in the exchange rate of the British pound" • House prices – "collapse of the housing market": help decide household wealth, which translates through to borrowing and spending • Oil prices and other commodity prices • Performance in other countries • Savings / consumer expenditure • Access to credit / market interest rates **NB: Do not award real wage changes as a factor**	**(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** • Inaccuracies or inadequacies of data may mean that the UK's economic growth may not be low as it has been estimated • Reliability of data/uncertainty of forecasting: many statistics are revised later, such as GDP • Difficulty of estimating amount of output gap/spare capacity in the economy • Lagged effect of many influences on the inflation rate, e.g. unemployment is a lagging indicator and may be of little use • Oil prices and commodity process are very volatile: increase in price might be temporary – therefore, problem of using the current inflation rate to guide monetary policy decisions • Potential for economic shocks changing the global economic landscape considerably leading to higher uncertainty in the world economy • Lagged effect of monetary policy • Prioritisation of the relative significance of each factor • Combination of factors are likely to be considered	**(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: • Understanding of demand side policies as fiscal policy and monetary policy • Implicit or explicit identification of the UK's macroeconomic objectives • AD/AS diagram showing shift in the AD curve consistent with analysis Explanation and application (including the use of current data) of how policies might conflict with objectives: <u>Fiscal policy:</u> • Increasing government spending, increasing employment and/or growth. Potential conflict with inflation and protection of environment • Reduction in taxation, lowering tax burden so increasing AD, increasing employment and/or growth. Potential conflict with income inequality and a balanced budget <u>Monetary policy:</u> • Reduction in interest rates (or an increase in money supply) increasing employment and growth. Potential conflict with inflation • Reduction in interest rates (or an increase in money supply), weakening exchange rate thus improving current account position of balance of payments. Potential conflict with inflation. **Evaluation 6** • If government spending increases on health and education, AS will increase therefore no inflation • If increased government spending increases growth, this should increase tax revenues • Lower interest rates might lead to increased investment causing AS to increase, reducing inflationary pressures • Tax cuts will be ineffective if used to increase savings or repay debts • Cuts in Bank of England's interest rate will be ineffective if banks unwilling to lend or if banks do not reduce interest rates to customers • Time lag for full effect of these policies (takes nearly 18 to 24 months) • Depends on the elasticity of the LRAS curve/ spare capacity	**(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: • Definition of an expansionary monetary policy • Understanding of the role of the MPC of the BoE MPC has been successful: • Significantly reducing base interest rate by 4.75% points and increasing QE by "£375 billion" has led to a rise in real GDP – use of Figure 2: "preventing the recession, from the Global Financial Crisis, turning into another Great Depression" • Inflation has been under control and mostly within the target rate of inflation – use of Figure 1 • Increase in AD has led to falling unemployment – UK unemployment has "fallen to 4% in 2019, the lowest since the mid-1970s" • Lower interest rates reduce hot money flows, thus leading to weaker currency – "fall in the exchange rate of the British pound": an improvement in the current account of the BoP as net exports rise • Rising real incomes/standard of living since 2014 – use of Figure 1: "Households with mortgages benefitted from the low interest rate, enabling them to keep consuming" **Evaluation 6** MPC has not been successful: • Increase in real GDP since the crisis has only been modest – use of Figure 2: between 2010 and 2018 it has been less than 1% annual growth • Inflation has been out of tolerance – use of Figure 1 OR own knowledge of recent inflation trends: perhaps indicating these are mostly affected by cost-push factors not under MPC's control • Real incomes falling for much of the period between 2008 and 2014 – use of Figure 1: reduces standard of living and quality of life • Could lead to rise in income inequality – "the lower interest rates have led to a rise in household debts" • There is no evidence that QE has worked in the UK – "They drafted the use of a new idea: quantitative easing" – and they had additional rounds of asset purchases to increase money supply, e.g. "further expanded it QE programme by £60 billion" in 2016 **N.B. Candidates can argue why the MPC has not been successful as analysis and the opposite as evaluation**	**(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.