Pearson Edexcel

Mark Scheme (Results)

October 2020

Pearson Edexcel GCE AS Level
In Economics A (8EC0)
Paper 2: The UK Economy: Performance and Policies

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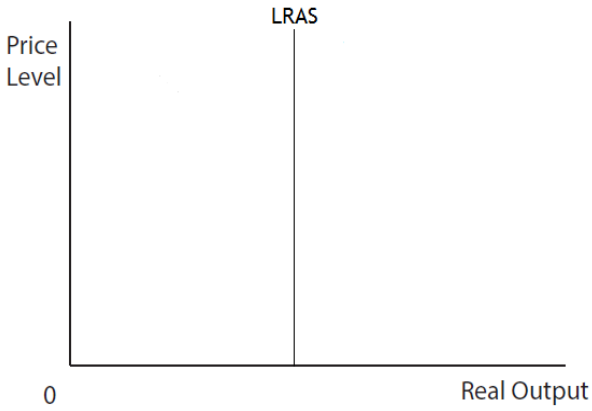
General Marking Guidance

- 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. • Increase in the average prices/general price level (1) • Fall in purchasing power of money/currency (1)	**(1)**

Question Number	Answer	Mark
1 (b)	**Knowledge 2** **Knowledge/understanding:** 2 marks (1+1) for, e.g. • Demand pull inflation/increase in AD (1) with reason, e.g. due to an increase in injections/ consumption/fall in interest rates/fall in unemployment (1) • Cost push inflation/decrease in SRAS (1) with reason, e.g. due to an increase in cost of raw materials and energy (1) • Increase in money supply (1) for e.g. due to an increase in quantitative easing (1)	**(2)**

Question Number	Answer	Mark
1 (c)	**The only correct answer is D** **A** is not correct because there is a difference in the rate of inflation between RPI and CPI **B** is not correct because this does not show the difference in percentage points **C** is not correct because this is a partial attempt to calculate the percentage change	**(1)**

Question Number	Answer	Mark
2 (a)	**Knowledge 1** **Knowledge:**  	**(1)**

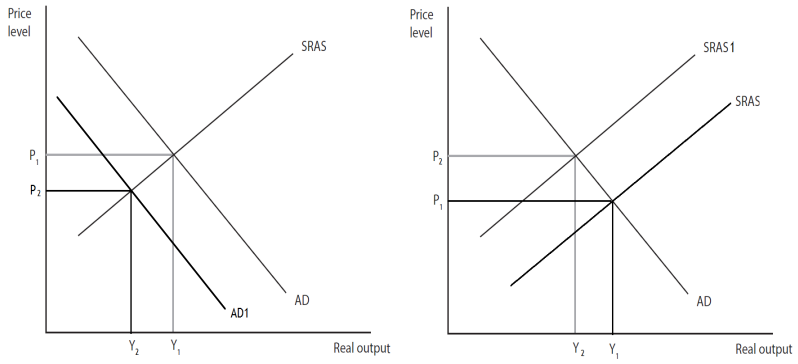
Question Number	Answer	Mark
2 (b)	**Knowledge 2** **Knowledge/understanding:** 2 marks for, e.g. • Economy operates at full capacity/no spare capacity (1) so there are no unused factors of production/ resources (1) • Wages and prices are seen as flexible, and markets efficient (1) so that the labour market adjusts to maintain full employment (1)	**(2)**

Question Number	Answer	Mark
2 (c)	**The only correct answer is A** **B** is not correct because this is an interventionist supply-side policy **C** is not correct because this is an interventionist supply-side policy **D** is not correct because this is an interventionist supply-side policy	**(1)**

Question Number	Answer	Mark
3 (a)	**The only correct answer is C** **A** is not correct because when government spending is greater than taxation, it represents a budget deficit **B** is not correct because the balance of trade is always in deficit as indicted by negative values **D** is not correct because the value of exports is smaller than the value of imports	**(1)**

Question Number	Answer	Mark
3 (b)	**Knowledge 1, Application 1, Analysis 1** **Knowledge/understanding:** 1 mark for identifying one likely reason, e.g. • Increasing real incomes (1) • Relatively low productivity (1) • Rising oil/commodity prices (1) • Appreciation of exchange rate (1) • Worsening of quality of UK exports (1) **Application:** 1 mark for reference to the chart, for e.g. • The UKs monthly trade balance was in a deficit of just under £2 billion at the end of 2017 (1) • Value of outflows is greater than value of inflows for the UK (1) **Analysis:** 1 mark for linked development, e.g. • Imports increase as UK consumers have a high marginal propensity to import (1) • Low productivity increases cost per unit: makes exports relatively more expensive, reducing the demand for domestic goods (1) • Higher oil / commodity prices increase the cost of imports as the UK is a net importer of oil and commodities (1) • Rise in the value of the pound makes exports relatively expensive and its imports relatively cheaper (1)	**(3)**

Question Number	Answer	Mark
4 (a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • Cost of borrowing (1) / • Reward for saving (1)	**(1)**

Question Number	Answer	Mark
4 (b)	**Application 2** **Application:** 2 marks for, e.g. • Correct leftward shift of AD (1) • Correct new equilibrium point (1) **OR** • Correct shift of SRAS (1) • Correct new equilibrium point (1) 	**(2)**

Question Number	Answer	Mark
4 (c)	**The only correct answer is B** **A** is not correct because contractionary fiscal policy involves the government increasing tax rates and reducing government spending **C** is not correct because expansionary fiscal policy involves the government reducing tax rates and increasing government spending **D** is not correct because an expansionary monetary policy involves reducing interest rates and increasing asset purchases (quantitative easing)	**(1)**

Question Number	Answer	Mark
5 (a)	**Knowledge 1** **Knowledge/understanding:** 1 mark for definition, e.g. • It is GDP **plus** net income paid into the country by other countries for things such as dividends or interest (1) / • Measures income received by a country both domestically and from assets/activities/net property income abroad (1)	**(1)**

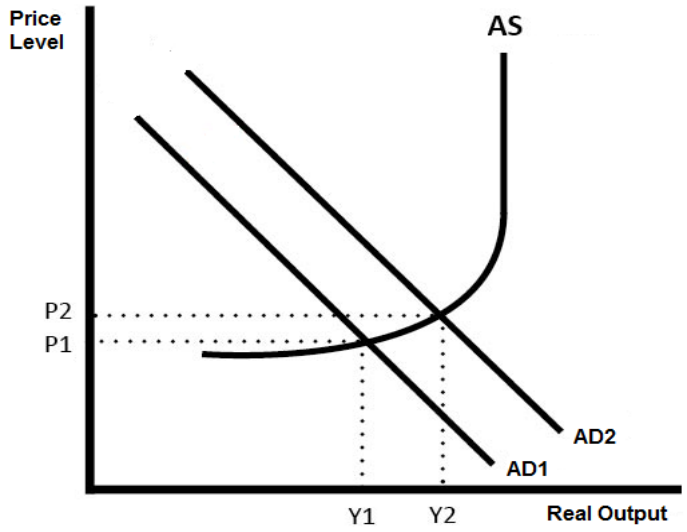
Question Number	Answer	Mark
5 (b)	**The only correct answer is C** **A** is incorrect as it is the ratio of Gross National Income in 2014 to Gross National Income in 2015 **B** is incorrect as it is the ratio of Gross National Income in 2016 to Gross National Income in 2017 **D** is incorrect as it is the ratio of Gross National Income in 2014 to Gross National Income in 2017	**(1)**

Question Number	Answer	Mark
5 (c)	**Application 2** **Application:** (1 920 116 / 1 806 468) x 100 (1) Answer = **106.3** (accept 106) Award 1 mark for partially correct calculation/ recognition that 2014 = 100 Award 2 marks for correct answer.	**(2)**

Question Number	Answer	Mark
6 (a)	**Knowledge 2, Application 2** **Knowledge/understanding** 2 marks for, e.g. • Government spending equals (1) tax revenue/ income (1) • Neither a budget deficit nor a budget surplus (1) **Application** 2 marks for 2 data references from Figure 1 (1+1), e.g. • UK experienced a balanced budget in 1990 (1) at nearly 35% of GDP (1) • Overall trend/data point shows there is a budget deficit (1)	**(4)**

Question Number	Answer	Mark
6 (b)	**Knowledge 1, Application 2, Analysis 2** **Knowledge/understanding** 1 mark, for e.g. • Explanation/formula of aggregate demand (1) • Understanding of a depreciation of the exchange rate (1) • Simple explanation of what a weaker currency means (1) **Application** 2 marks (1+1), for e.g. • Aggregate demand will increase (1) shown on a diagram (1) • Weaker pound due to a lack of confidence as a result of the UK's decision to leave the EU (1) • Low interest rate and less hot money flows (1) **Analysis** 2 marks for linked development (1+1), e.g. • Imports become relatively more expensive, so aggregate demand rises (1) • Exports become relatively cheaper, so aggregate demand rises (1)	**(5)**

Question Number	Answer	Mark
6 (c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge/understanding** Identification of two influences (1+1) for, e.g. • Interest rates • Disposable incomes • Consumer confidence • Positive wealth effects **Application** 1 mark for data reference from Figure 2 and 1 mark from Extract A (1+1), e.g. • Figure 2 – real household consumption increased by approximately 1.7% between 2016 and 2017 • Extract A – Annual spending per person increased by £589 (1) • Increase in consumption has also been driven by low interest rates / average increase of 5.1% in house prices (1) **Analysis** Linked development (1+1), e.g. • Low interest rate implies low reward for saving / low cost of borrowing (1) • Higher incomes incentivise consumers to spend, but at a slower rate as people tend to save more as earnings rise (1) • High consumer confidence / wealth effects implies consumers are likely to make purchases that they know they can pay for in the future (1)	**(6)**

Question Number	Indicative content	Mark
6 (d)	**Knowledge 2, Application 2, Analysis 2** • Explanation of the term consumption, e.g. the expenditure on consumer goods and services • Consumption is a component of aggregate demand • Aggregate demand will increase from AD1 to AD2 • Inflationary pressures will increase from P1 to P2 • Real output will increase from Y1 to Y2 • Consequently, unemployment will decrease • Figure 1: household consumption has increased by nearly 117% between 1998 and 2018 • Extract A: spending per person increased by £589 Diagram, e.g.:  **NB Candidates must answer with a valid AD/AS diagram showing 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** • 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 rose by 9.6%": it creates an unstable and unbalanced economy • Consumer spending could be constrained in the long term if the central bank raises the base interest rate – "more expensive credit could constrain the ability of households to spend" • Depends on other factors in the economy, such as net trade and investment	**(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 long-term trend rate of growth Possible factors include: • Fall in relative productivity, "the fall in the level of productivity is a long-term issue" – costs per unit rise and export prices increase; exports fall • Lower technological advances will reduce efficiency and raise the cost of supplying goods and services; lack of innovation due to less R&D spending • Slow growth in the level of UK's investment into capital goods since the "financial crisis" – due to lack of business confidence • Lack of government spending on education and training – has a negative impact on the skills of the workforce, thereby reducing human capital • Slower rate of immigration – fewer workers coming into the country as a result of the UK's decision to leave the EU; this decreases growth of the active labour force and hence lower rate of output produced • Stricter government regulations – markets are less flexible and reduces competition in industries • External factors, e.g. slow global growth rates • Accept demand side factors if linked to growth	**(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: • Significance of the most important factor affecting growth; "productivity is a long-term issue" • Depends on the size of the fall in UK productivity and on the productivity of the UK's main trading partners, such as the US and EU • Uncertainty over the UK's decision to leave the EU is more important than the financial crisis as this was over 10 years ago; effects of the lower investment may not yet be seen • Inaccuracies/inadequacies of data may mean that the UK's long-term growth might not be low as it has been estimated • Uncertainty of world economy	**(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/definition of supply-side policies • Understanding/definition of economic growth • AD/AS diagram showing change in AS consistent with analysis / use of PPF diagram • Increased government spending on education and/or training - this would increase skills and productivity • Increased government spending on healthcare – this should reduce the number of days absent from work • Reducing level of benefits and/or income tax – this would incentivise employment and will increase the output per worker of those in work and increase the number of workers in work • Cutting cost of bureaucracy and/or reduce regulation of firms – this would raise productivity • Financial support for investment in the economically deprived regions – this may help overcome structural unemployment and increase the UK's total output • Improving regulation and/or competition of inefficient industries – this would increase the UK's productivity • Privatisation - this may lead to increased competition, innovation and efficiency in the UK • Increased government spending on infrastructure investment (e.g. broadband or roads) – this would reduce industry costs or improve access to market • Reducing corporation tax – therefore increasing the international competitiveness for investment • Government schemes to improve childcare provision • Increased flexibility and/or mobility of labour **Evaluation 6** • Significant time lags for supply-side policies • Consideration of the effectiveness of supply-side policies such as infrastructure/ education/ healthcare at delivering sustainable growth • Privatisation may lead to private monopolies and less efficiency and lower economic growth • Cut in the income tax designed as an incentive to work and investment may be ineffective if workers use it as an opportunity to work less for the same income	

	• Cut in corporation tax ineffective if companies use the cut in corporation tax to boost short-term profits rather investment • Increase in UK taxation elsewhere may have an effect on incentives to work	**(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: Possible effects include: • Reduction in real output / economic growth • Deflationary effect / reduce inflationary pressures • Rising unemployment / falling real wages in the public sector – government "introduced additional rounds of departmental spending cuts" • Increasing inequality – "the government further decreased welfare payments" • Falling real incomes / standard of living – "slow growth in real household disposable incomes" / "decline in living standards" • Reference to the impact of reduced government investment on long-term growth of the economy – "should not pursue further reductions in the budget deficit as this would allow for a significant increase in public investment" • Improvement in balance of payments on current account as net exports rise • Reference to the impact on the environment N.B. Candidates can discuss macroeconomic effects using an accurately labelled AD/AS diagram / accept a circular flow of income diagram that demonstrates a reduction in the circular flow of income **Evaluation 6** • Depends on size of the multiplier effect • Shape of the AS curve/spare capacity • Reduction in transfer payments may reduce frictional/voluntary unemployment • Effects depend on to what extent private sector spending/employment can replace public sector spending/employment • Short-run and long-run macroeconomic effects • Effects depend on what areas of government spending/taxes are changed • Potential increase in hidden economy (e.g. rise in cash in hand work)	**(20)**

Knowledge, application and analysis		
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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.
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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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