OCR A-LEVEL ECONOMICS

ECONOMICS



EXAM QUESTION PACK

UNIT F582 OLD SPECIFICATION PAPERS

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OCR
Oxford Cambridge and RSA

Monday 23 May 2016 – Morning

AS GCE ECONOMICS

F582/01 The National and International Economy

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 1 hour 30 minutes

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*****).
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Turn over

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Would the UK have benefited from adopting Abeconomics?

At the start of 2013 the UK and the Japanese governments were seeking to increase both aggregate demand and aggregate supply. There were, however, differences in their countries' macro-economic performance and in one key aspect of their respective governments' economic policy approaches.

Real Gross Domestic Product (GDP) per head at the end of 2012 was US$45 000 in Japan, while it was US$38 000 in the UK. Income was more unevenly distributed in Japan than in the UK. This was despite the top rate of national income tax being lower in Japan than in the UK and the Japanese government providing fewer benefits to the poor than the UK government provides.

At the start of 2013 the unemployment rate in the UK, as measured by the Labour Force Survey (ILO) method, was higher at 7.5% compared to 4.0% in Japan. The number of people unemployed, however, was lower in the UK than in Japan because Japan's labour force was greater than the labour force of the UK. Japan's population size was 127 million which was just under double that of the UK's population at 64 million. Japan's labour force of 65 million was slightly more than double the UK labour force of 32 million.

Costs of production were rising at a higher rate in the UK than in Japan and there were concerns about the slowdown in the growth of UK productivity. The Japanese economy was facing a number of problems, including a fall in the price level and an unwelcome trend in the exchange rate. Fig. 1 shows how the value of the Japanese yen changed between 2008 and 2012.

The Japanese yen – US dollar exchange rate, 2008 to 2012

Year	Japanese yen per US$
2008	118
2009	104
2010	97
2011	90
2012	82

Fig. 1

Changes in the exchange rate influence economic activity and are, in turn, influenced by a range of factors including changes in interest rates.

In early 2013, Mr Shinzo Abe, the Prime Minister of Japan, announced a strategy to stimulate Japan's economic activity. This strategy, which has become known as Abeconomics, combines expansionary monetary policy, expansionary fiscal policy and supply-side policy. In April 2013, the Bank of Japan introduced a large increase in the money supply, stated that it would keep interest rates at about zero and encouraged a significant fall in the exchange rate. The Japanese government was expected to cut corporation tax and raise government spending on a range of areas including health care. In addition, it was expected that the government would introduce a range of structural reforms, including deregulation and privatisation.

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In the same period, the Bank of England was also implementing an expansionary monetary policy by increasing the UK money supply as there was not much room to make a significant cut in the rate of interest. The UK government was also seeking to improve the supply-side performance of the UK economy. It was, however, pursuing a harsher fiscal policy approach by restricting the growth of government spending and cutting some state benefits. The amount any government spends is, of course, influenced by a number of factors including changes in output. Some economists suggested that the UK government should cut unemployment benefit, although there was a debate about how such a measure was likely to affect unemployment.

Both the UK and Japanese governments were aiming for economic growth in 2013 in a bid to improve living standards and to achieve their other policy objectives for the macro-economy. Economists were predicting that by the end of 2013 the UK's real GDP would rise to US$2494.7 billion and Japan's real GDP would increase to US$5712.15 billion. It is interesting to speculate whether the adoption of Abeconomics would have enabled the UK economy to grow at a faster rate in 2013.

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Answer **all** questions.

1 Using information from the case study, identify **two** policy measures the Japanese government could have taken to redistribute income from the rich to the poor.

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[2]

2 **(a)** Describe **two** disadvantages to a government of measuring unemployment through the use of the Labour Force Survey (ILO).

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[4]

(b) Using information from the case study, calculate how many more people were unemployed in Japan than in the UK at the start of 2013.

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..... **[2]**

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(c) (i) Explain why a cut in the amount paid in benefits to the unemployed may **decrease** unemployment.

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..... **[2]**

(ii) Analyse why a cut in the amount paid in benefits to the unemployed may **increase** unemployment.

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..... **[4]**

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3 **(a)** What effect would an increase in costs of production have on the position of the aggregate supply curve?

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..... **[1]**

(b) Explain how **three** of the proposed policy measures mentioned in the case study (lines 25 to 28) could shift Japan's aggregate supply curve.

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[6]

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4 **(a)** Explain what effect the change in the value of the Japanese yen, shown in Fig. 1, would be expected to have had on Japan's aggregate demand.

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..... **[4]**

(b) Comment on whether a large and sustained reduction in the rate of interest is likely to reduce a current account surplus on the balance of payments. **[6]**

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5 Comment on whether a large decline in a country's output is likely to result in lower government spending.

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..... **[6]**

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6 **(a)** State **one** similarity and **one** difference between GDP and real GDP.

Similarity .....

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Difference .....

..... **[2]**

(b) Using information from the case study, calculate the expected increase in the UK's real GDP between 2012 and 2013.

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..... **[3]**

(c)* Discuss whether economic growth will always help a government achieve its other macro-economic policy objectives. **[18]**

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ADDITIONAL ANSWER SPACE

If additional space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margin(s).

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GCE

Economics

Unit **F582/01:** The National and International Economy

Advanced Subsidiary GCE

Mark Scheme for June 2016

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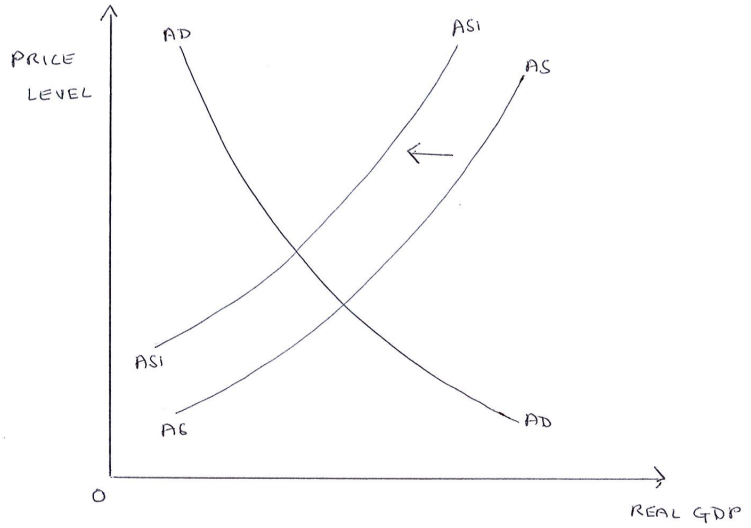
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Question			Answer/Indicative content	Mark	Guidance
1			**Using information from the case study, identify two policy measures the Japanese government could have taken to redistribute income from the rich to the poor.** Identification • Increasing the top rate of income tax/make tax more progressive • Increasing state benefits • Increasing government spending on health care	2	One mark each for each of two policy measure identified. No marks for just progressive tax/increase tax rates/set up benefit system/change tax rate/change benefits.
2	a		**Describe two disadvantages to a government of measuring unemployment through use of the Labour Force Survey (ILO).** • survey results may be unreliable/inaccurate (1) problem of whether survey may be representative / problem of interpretation/sampling errors (1) • measures relatively expensive (1) time and effort has to be spent collecting the information (1) • time delay before information comes available (1) this may mean that the figure under or over estimate the current unemployment rate (1) • people may be working in the informal economy (1) will give inaccurate information (1) • excludes discouraged workers (1) these will not have looked for work in the last month (1)	4	One mark each for each of two disadvantages and one mark each for each description of those two disadvantages. No marks for people in between jobs or working part-time when they would like to work full-time. No marks for giving opportunity cost as an expansion of expensive.
2	b		**Using information from the case study, calculate how many more people were unemployed in Japan than in the UK at the start of 2013.** Two marks for 0.2 million/200,000. One mark for recognising unemployment in the UK was 2.4m and was 2.6m in Japan/ 0.2 or 2 million or variation of 2.	2	7.5% of 32million = 2.4million unemployed 4% of 65million = 2.6million unemployed 2.6million – 2.4million = 0.2million (200,000)

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Question			Answer/Indicative content	Mark	Guidance
2	c	i	**Explain why a cut in the amount paid in benefits to the unemployed may decrease unemployment.** • Will reduce the income (money available) of the unemployed/income will be higher by working/lower by not working/greater opportunity cost of not working • May increase pressure on the unemployed to search more actively for employment/increase incentive to work/be more willing to accept a low paid job • May reduce frictional/voluntary/search unemployment	2	
2	c	ii	**Analyse why a cut in the amount paid in benefits to the unemployed may increase unemployment.** • Lower incomes will reduce the spending (of the unemployed) • Unemployed are likely to have a high mpc. • Lower consumer expenditure will reduce aggregate demand • Lower aggregate demand will reduce output/profits • To produce less output/lower costs, fewer workers will be required • Cyclical unemployment may increase • Unemployed will spend less on education of their children making them less employable	4	No marks for just mentioning it will reduce incomes. No marks for why it may prevent unemployment falling e.g. reduce the amount the unemployed can spend travelling to job interviews. We are looking for link between C and AD rather than G and AD (benefits = transfer payment).

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Question			Answer/Indicative content	Mark	Guidance
3	a		**What effect would an increase in costs of production have on the position of the aggregate supply curve?** • Will shift it to the left/shift inwards	1	Accept a diagram showing aggregate supply shifting to the left provided the curves are labelled No marks for AS will fall – too vague. 
3	b		**Explain how three of the proposed policy measures mentioned in the case study (lines 25 to 28) could shift Japan's aggregate supply curve.** • A cut in corporation tax could increase investment (1) this would increase quantity/ quality of capital goods/reduce costs of production/increase productivity (1) • Increased spending on health care or increased spending on another factor e.g. education or infrastructure that could increase productivity (1) reduce costs of production / increase quantity/ quality of labour/make workers healthier (1)	6	No marks for just identifying policy measures. The question is on the process, so also no mark for identifying the direction of the shift or stating they will increase AS/productive capacity.

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Question			Answer/Indicative content	Mark	Guidance
			• Deregulation removes rules and regulations (1) which could reduce costs of production/increase efficiency/increase competition/ attract investment/increase quantity or quality of resources (1) • Privatisation may put increased competitive pressure on firms/stimulate investment (1) to keep costs of production low/increase efficiency/increase productivity/increase quantity or quality of resources (1)		
4	a		**Explain what effect the change in the value of the Japanese yen, shown in Fig.1, would be expected to have had on Japan's aggregate demand.** • The value of the Japanese yen rose • More dollars had to be paid to buy a Japanese yen/less of the Japanese currency had to be given to buy a dollar • The price of Japanese exports would have increased • Demand for Japanese exports may have fallen • The price of Japanese imports would have decreased • Demand for Japanese imports may have increased • Net exports are likely to have decreased • Net exports are a component of AD/exports are an injection and/or imports are a leakage • Lower net exports may have reduced Japan's aggregate demand • Lower profits may reduce investment and so lower relative quality of exports	4	Accept for net exports being a component of AD – AD = C + I + G + (X –M). Accept for decrease AD, a shift to the left of the AD curve on a diagram. So long as the AD curve is labelled.

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Question			Answer/Indicative content	Mark	Guidance
4	b		**Comment on whether a large and sustained reduction in the rate of interest is likely to reduce a current account surplus on the balance of payments.** Up to three marks for why it might: • A lower rate of interest will reduce the cost of borrowing/encourage borrowing and discourage saving (1) • Consumer spending is likely to rise (1) • Some of the higher consumer spending is likely to go on imports (1) • Higher consumer spending may encourage some domestic firms to switch products from foreign markets to the domestic market thereby reducing exports (1) • A lower interest rate may increase the price level (1) • Inflation may make domestic products less price competitive (1) • Higher domestic prices may reduce net exports (1) • Lower saving may reduce funds available for investment (1) • Lower investment may make products less price competitive (1) Up to three marks for why it might not: • A lower interest rate may discourage hot money flows/reduce the amount foreigners will want to put funds into the country's banks (1) demand for the currency may fall reducing the exchange rate (1) lower export prices and higher import prices may improve the trade in goods and services (1)	6	One side = analysis and the other side evaluation. Marks on one side indicated by a tick and on the other side by a C. Up to three marks for one point well made.

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Question			Answer/Indicative content	Mark	Guidance
			• Trade in goods and services is only one part of the current account position (1) changes in other components of the current account position could offset a change in the trade in goods and services balance (1) primary income (income) and/or secondary income (current transfers) could increase (1) • Consumer spending/borrowing may not change (1) people may be pessimistic about the future/incomes are falling/people may be paying off past debt (1) so demand for imports may not change (1) • A lower rate of interest may stimulate investment which may increase quality/reduce costs of production (1) making domestic products more price competitive (1) • Firms may purchase raw materials/capital equipment (1) this can increase prices/quality competitiveness (1) increase exports in the future (1) • Exports may rise to cancel out the rise in imports (1) • Exports may rise if e.g. income abroad rise/exchange rate falls (1)		Note: credit can only be given once for purchase more raw materials/capital goods.
5			**Comment on whether a large decline in a country's output is likely to result in lower government spending.** Up to three marks for why it might: • A reduction in a country's output will lower income/employment/profits (1) • Tax revenue is likely to fall (1) • Lower income will reduce revenue from income tax and corporation tax (1)	6	One side = analysis and the other side evaluation. Marks on one side indicated by a tick and on the other side by a C. Note: lower unemployment may occur on either side but can only be credited once.

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Question			Answer/Indicative content	Mark	Guidance
			• Lower income reduces spending (1) • Lower spending will reduce revenue from VAT and excise duties/indirect taxes (1) • Lower tax revenue reduces the funds available for a government to spend/may reduce the willingness of a government to spend because of concern about having to borrow/causing a budget deficit (1) Up to three marks for why it might not: • A government may increase its spending to stimulate economic activity (1) higher government spending may increase aggregate demand (1) higher aggregate demand may encourage firms to increase output (1) • Lower output may increase unemployment (1) higher unemployment will increase the amount spent on unemployment benefits (1) more subsidies may be given to firms/more might be spent on training (1) • Tax revenue may not fall (1) tax rates may be increased (1) tax base may be increased (1) • Government spending may initially have been below tax revenue/there may have been a budget surplus (1) government spending can be maintained without causing a deficit (1) there may be no concern about getting into debt (1) • The government may spend on education and training to increase productivity (1) to make economy more internationally competitive (1) • Output may fall but prices/wages/profits may rise (1)		Up to three marks for one point well made. Note: reference may be made to automatic stabilisers. This approach is not required but should be credited.

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Question			Answer/Indicative content	Mark	Guidance
6	a		**State one similarity and one difference between GDP and real GDP.** Similarity: * Both are a measure of output/income/expenditure Or: • Both include gross investment Difference: • Real GDP has been adjusted for inflation whereas GDP has not/real GDP is at constant prices whilst GDP is at current prices	2	Similarity Nothing for both measure Gross Domestic Product. Also nothing for both measure economic growth – that would be *changes* in real CDP and nothing for living standards – that would be real GDP per head. Difference Accept: real GDP adjusted for inflation/at constant prices/takes into account inflation.
6	b		**Using information from the case study, calculate the expected increase in the UK's real GDP between 2012 and 2013.** Three marks for $62.7billion/$6,270,000,000/$62.7 x 10^9 Two marks for: $2,494.7billion – $2432billion or (any variation of) $62.7/62.7 or for 62billion without the dollar sign or with e.g. £ sign. One mark for $2,432billion/2,432	3	$38,000 * 64million = $2,432billion (1)

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Question			Answer/Indicative Content	Marks	Guidance	
					Content	Levels of response
6c			**Discuss whether economic growth will always help a government achieve its other macroeconomic policy objectives.** Economic growth can encourage firms to take on more workers and so may reduce unemployment and may reduce poverty. It may be export-led which may help to reduce a current account deficit or turn it into a surplus. If caused by an increase in aggregate supply, it may reduce inflation and make the country's products more internationally competitive. Answers should evaluate the impact of economic growth on other policy objectives for the macro-economy. Examples of possible **Level 4** answers: • Economic growth may both help and hinder a government's ability to achieve its other policy objectives for the macro-economy – there may be policy conflicts • Economic growth which combines both an increase in aggregate demand and aggregate supply is more likely to enable a government to achieve its other objectives	**18**	If awarding Level 4, indicate lower band Level 4 with L4 and higher band Level 4 with EE. For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing whether economic growth caused by both an increase in AD and AS will always help a government achieve its other policy objectives for the macro-economy. For 13 – 15 marks, a discussion which does evaluate in terms of exploring both the reasons why economic growth may help a government to achieve other policy objectives for the macro-economy and the reasons why it might not. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, constantly relevant have been well structured, using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar.	**Level 4 [13 – 18]** **For a discussion of whether economic growth will always help a government achieve its other macroeconomic policy objectives.** Note: evaluation must be supported by relevant analysis. For 16 – 18 marks, the discussion must: • come to a supported conclusion as to what factors will influence how economic growth affects a government's other policy objectives • be based on strong and relevant analysis and evaluation considering both the effects of an increase in both AD and AS on the objectives. For 13 – 15 marks, the discussion must: • examine how economic growth may both benefit and harm a government's other policy objectives • be based on preceding analysis which must focus on the actual question set.

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Question			Answer/Indicative Content	Marks	Guidance	
					Content	Levels of response
			• Economic growth resulting from an increase in aggregate demand may cause inflation and so prevent a government from achieving price stability • Economic growth may benefit the rich more than the poor and result in a more uneven distribution of income • Economic growth may be the result of advances in technology which may, in the short term, cause unemployment • Rapid economic growth may generate economic instability which in the longer term may discourage investment • Economic growth may increase imports of finished goods as incomes rise and imports of raw materials and capital goods as production increases. Exports may also be diverted to the domestic market. **Level 3** Answers should analyse the effects of economic growth on a government's other policy objectives for the macro-economy. Examples of possible **Level 3** answers:		Show where Level 3 has been awarded with L3. If awarding Level 3, 2 or 1 show where the highest level has been gained. For 11+ marks, there must be some depth of analysis, based on both increased AD and increased AS	**Level 3 [9 – 12]** **For an analysis of how economic growth may affect a government's other macroeconomic policy objectives.**

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Question			Answer/Indicative Content	Marks	Guidance	
					Content	Levels of response
			• Economic growth can reduce unemployment. Higher output may encourage firms to increase the number of workers they employ. Actual economic growth may reduce cyclical unemployment. Advances in training which can cause potential economic growth may reduce structural unemployment. • Economic growth can increase tax revenue and this could be used to improve education and training which could reduce unemployment. It could also be used to make income more evenly distributed by increasing state benefits • Economic growth, caused by an increase in aggregate supply, may reduce inflationary pressure. Increases in the quality or quantity of resources could reduce costs of production and so lower cost-push inflation • Economic growth, caused by an increase in aggregate supply, may increase the quality and price competitiveness of domestic products and so reduce a current account deficit or turn it into a surplus		For 9 – 10 marks, there may be some lack of depth, on both increased AD and increased AS Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though some may stray from the point of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning.	The analysis must focus on the actual question set, bringing out the effects of economic growth on unemployment, inflation and redistribution of income/lower poverty, economic stability and the current account position. For 11 – 12 marks, there should be analysis based on both increased AD and increased AS. For 9 – 10 marks, there should be some analysis based on either AD or AS, or undeveloped analysis on both increased AD or increased AS Note: writing about how an increase in AD at full capacity will cause inflation but no change in output is not exploring how economic growth will influence an economy.

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Question			Answer/Indicative Content	Marks	Guidance	
					Content	Levels of response
			• Economic growth resulting from an increase in resources may enable an economy to produce more without creating inflation • Stable and sustainable economic growth may promote economic stability as households and firms are more likely to be able to predict future earnings and profits **Level 2** Answers should recognise how the other policy objectives for the macro-economy may be affected. Examples of possible **Level 2** answers: • Economic growth may reduce unemployment • Economic growth may generate inflationary pressure • Economic growth may increase a current account deficit • Economic growth may alter the distribution of income • Economic growth may reduce poverty • Economic growth may promote economic stability		For 7 – 8 marks, the answer should recognise the effect on at least three or four policy objectives or a hint of explanation on one objective. For 5 – 6 marks, the answer should recognise the effect on one or two effects. Some ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.	**Level 2 [5 – 8]** **For application of knowledge and understanding of how economic growth may affect the other macroeconomic policy objectives.** To gain 8 marks, there should be identification of the effects on four objectives or a hint of explanation on one objective. To gain 7 marks, there should be identification of the effects on three objectives or a limited hint of explanation on one objective. To gain 6 marks, there needs to be identification of the effect on two objectives. To gain 5 marks, there needs to be identification of the effect on one objective.

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Question			Answer/Indicative Content	Marks	Guidance	
					Content	Levels of response
			Level 1 These answers will show an awareness of the terms. Examples of **Level 1** answers: • Economic growth is increases in real GDP • Economic growth is an increase in productive potential • Macro-economic policy objectives include full employment, price stability, a current account balance, redistribution of income/poverty and economic stability		For 3 – 4 marks, there will be good knowledge of economic growth and macro-economic policy objectives. For 1 – 2 marks, there will be some awareness of economic growth or macroeconomic policy objectives. Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may lack legibility.	An L2 mark can be given for a relevant unexplained assertion **Level 1 [1 – 4]** **For knowledge and understanding of economic growth and macro-economic policy objectives.**

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Tuesday 19 May 2015 – Afternoon

AS GCE ECONOMICS

F582/01 The National and International Economy

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 1 hour 30 minutes

Candidate forename		Candidate surname	

Centre number						Candidate number				

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Challenging times for Argentina and the United States of America (USA)

Argentina's official statistical agency, INDEC, has been criticised for producing figures which understate the country's inflation rate. One organisation which claims that inflation in Argentina is often three times the official estimate is the Billion Prices Project (BPP). This organisation measures inflation by checking the prices of products sold online. It claims that in the USA the official inflation rate figure also underestimates inflation.

In 2011 the Argentine government fined three independent domestic economic agencies for publishing figures which disagreed with those of INDEC. The government has, however, responded more positively to the criticism by announcing that a new consumer prices index will be introduced. The Argentine price level has been driven up in recent years by a number of factors. Higher wage rates have increased both costs of production and consumer spending. The government has also raised its spending. In 2011 spending on health care was equal to 9.5% of the country's real Gross Domestic Product (GDP) and spending on education was equal to 5.0%.

Argentina is Latin America's third largest economy in terms of real GDP. In 2011 Argentina's real GDP reached US$450bn. Between 2007 and 2012 the country had an average annual economic growth rate of 6%. One benefit which can result from economic growth is lower unemployment. Fig. 1 compares the unemployment rates over the period 2007–12 in Argentina and the USA.

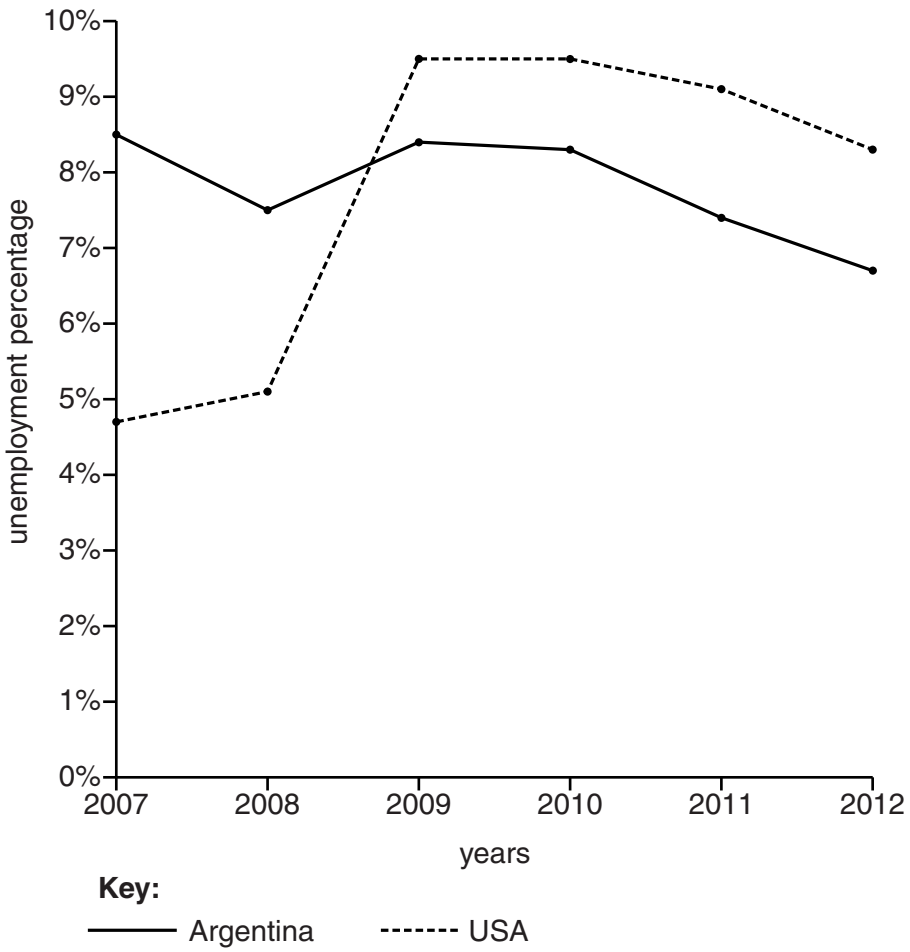


Fig. 1 – Unemployment rates for Argentina and the USA, 2007–12

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Both the Argentine and US governments would welcome a reduction in unemployment. As well as lower unemployment, economic growth may bring other benefits. These include higher investment and improved living standards. The level of investment fluctuates in both countries but living standards have risen and are likely to continue to rise. Life expectancy in 2011 was 76 years in Argentina and 80 years in the USA. It is forecast to rise in both countries.

There is also the possibility that both countries will experience increasing deficits on the current account of their balance of payments. The USA has had a current account deficit for some time and Argentina moved from a surplus into a deficit in 2011. Both countries recently responded to their deficits by engaging in protectionism. Argentina now imposes both tariff and non-tariff measures on imports. For example in 2012, the Argentine government not only imposed a tax on books bought from foreign websites but also required the buyers to travel to the airport to pick up their books in person.

Both Argentina and the USA face a number of challenges and there is some debate about what are the best economic policies for them to pursue. A number of economists are suggesting that a reduction in taxation would increase the economic growth rate of each country.

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Answer **all** questions.

1 **(a)** Define the term 'price level'.

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..... **[2]**

(b) Describe **one** reason why a consumer prices index may provide an inaccurate estimate of inflation.

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..... **[2]**

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2 **(a)** Using information in the case study:

(i) calculate in US$ by how much spending on health care exceeded spending on education in Argentina in 2011.

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..... **[2]**

(ii) explain **two** reasons why government spending in Argentina may increase in the future.

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(b) Comment on whether higher government spending will always increase inflation.

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3 **(a)** Using Fig. 1, compare the trend in unemployment rates of Argentina and the USA between 2007 and 2012.

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(b) Comment on whether an increase in employment in a country will increase investment in that country.

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4 Explain why a government would want to prevent a decrease in aggregate supply.

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5 **(a)** Define the term 'protectionism'.

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(b) State **three** non-tariff methods of protection.

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6 **(a)** State **three** components of the current account of the balance of payments.

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(b) Analyse **two** causes of an increase in a current account deficit of the balance of payments.

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7* Discuss whether a reduction in taxation will always increase a country's economic growth rate. **[18]**

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

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GCE

Economics

Unit **F582:** The National and International Economy

Advanced Subsidiary GCE

Mark Scheme for June 2015

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Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
	Tick
	Cross
	Unclear
BOD	Benefit of doubt
C	Comment
EE	Effective evaluation
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
NAQ	Not answered question
SEEN	Noted but no credit given
TV	Too vague
REP	Repeat

Highlighting is also available to highlight any particular points on the script.

'SEEN' to be inserted on every blank page.

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Question			Answer	Mark	Guidance
1	(a)		**Define the term 'price level'.** Two marks for: the average prices/general level of prices of products in an economy (or country)/ average prices of products produced in an economy. One mark for: average prices/general prices/prices in general/prices in the economy/where AD=AS.	2	Up to two marks. Note: not accepting value, cost or a micro approach.
	(b)		**Describe one reason why a consumer prices index may provide an inaccurate estimate of inflation.** One mark for identification of a reason, e.g.: • people moving away from products that have become relatively more expensive • does not include price of housing (although CPIH does include owner occupiers' housing costs) • buying products at cheaper outlets • improvements in quality • weights not reflecting purchases • basket not representative/only a selection of products included • purchases being made in the informal economy • there may be sampling errors • there is a time delay One mark for explanation e.g.: • consumers may switch to relatively cheaper versions of some products • people spend a relatively large proportion of their income on housing • there may be short-term changes in the outlets from which people may buy • a rise in the quality of products will mean the same products are not being compared	2	One mark for a correct identification, plus a further one mark for a description. Must be based on the inflation rate affecting the whole economy. Not giving CPI may not reflect price rises for different groups and in different regions.

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Question			Answer	Mark	Guidance
			• weights are revised each year – the delay may mean that the products do not reflect what is now being purchased • sampling errors may be included in the Integrated Household Survey/Family Expenditure Survey or sampling errors may arise due to inaccurate information being given to the people carrying out the survey • prices in the informal economy may be significantly different to those in the formal economy • by the time the figure is published, it may not reflect the inflation that people are experiencing		
2	(a)	(i)	**Using information in the case study, calculate in US$ by how much spending on health care exceeded spending on education in Argentina in 2011.** Two marks for: US$20.25bn. One mark for : • correct working: i.e. US$42.75bn – US$22.50bn or for • spending on health care US$42.75bn and spending on education US$22.50bn of for • US$20.25m/US$20.25.	2	Up to two marks. Need $ sign, bn and correct figure for both marks

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Question			Answer	Mark	Guidance
		(ii)	**Using information in the case study, explain two reasons why government spending in Argentina may increase in the future.** One mark each for each of two relevant reasons identified: • in an attempt to reduce unemployment • to promote economic growth • to cope with an ageing population • Increased ability to spend more due to higher tax revenue • to reduce the current account deficit • to improve living standards • to increase investment • to cut costs of production • to keep pace with inflation One mark each for each of two relevant explanations: • higher government spending may reduce cyclical/structural unemployment • the government may engage in expansionary fiscal policy to raise aggregate demand and so increase output. • as people live longer there will be more demand for health care and the cost of state pensions will rise. • higher government spending on education may raise the quality of products produced • continued economic growth/lower unemployment/higher wage rates will increase incomes and spending which, in turn, will raise direct and indirect tax revenue which can be spent • a government may increase its spending on, for example, subsidies to domestic firms to increase their international price competitiveness	4	One mark for each correct identification, up to a maximum of two identifications, plus a further one mark for each of two explanations. Note: explanation must be linked to reason e.g. no marks for 'may spend more on education' if not linked to e.g. promoting economic growth.

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Question			Answer	Mark	Guidance
			• to raise living standards, a government may increase its spending on health care for example • to encourage more investment, a government may directly spend on capital goods or provide subsidies to firms • to cut costs of production a government may finance training or provide subsidies for capital equipment • rising prices will increase the cost of government purchases		
	(b)		**Comment on whether higher government spending will always increase inflation.** Up to three marks for analysis: Why it might: • government spending is a component of aggregate demand (C+I+G+(X-M))/injection into the circular flow • higher government spending will increase aggregate demand/result in more money in the circular flow • may result in a multiplier effect • higher aggregate demand may result in demand-pull inflation Up to three marks for evaluation: • some forms of government spending may raise both aggregate demand and aggregate supply • higher spending on education and/or health care may raise labour productivity • higher aggregate supply can reduce inflationary pressure • it will depend on the initial state of economic activity • it will depend on whether it is financed by higher taxation	6	Note: a candidate cannot access the evaluation marks without any analytical underpinning clearly linked to the question. Up to three marks may be gained for one evaluative point well made, e.g. if the government increases its spending on training, aggregate supply may rise in line with aggregate demand, thereby ensuring that it does not cause a rise in the price level. Note: if second bullet point mark has not been awarded a mark can be given for a diagram that shows AD shifting to the right. Note: The question is concerning whether it will increase inflation and not by how much. Therefore, no marks for just stating that it will depend on the size or duration of the increase in government spending.

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Question			Answer	Mark	Guidance
			• if the higher AD is matched by higher AS, there may be no impact on inflation • if the higher spending raises aggregate supply by more than it raises aggregate demand, it may reduce inflation		
3	(a)		**Using Fig. 1, compare the trend in unemployment rates of Argentina and the USA between 2007 and 2012.** Indicative content: • Argentina's unemployment rate has a downward trend • USA's unemployment rate rose over the period • Argentina's unemployment rate starts above that of the USA and finishes below that of the USA • There is a greater change in the unemployment rate of the USA • the USA experiences an upwards trend between 2007 and 2009 and then a downward trend • Argentina's unemployment fluctuated between 2007-9 and then had a downward trend • Both countries experience a downward trend after 2009/10 • The decrease after 2009 is at a similar rate in both countries • For most of the period USA unemployment rate is higher than Argentina's/from 2009 USA unemployment is higher than Argentina's (vice versa for Argentina's lower than USA) • Over the period, the range of unemployment rates has been greater in the USA/more volatility in unemployment	4	Allow four marks for four comparisons but also allow a mark for development of one comparison, e.g. • Argentina's unemployment rate fell by approximately 1.8% points or 21.18% over the period. • USA's unemployment rate rose by approximately 3.7% points or 80.43% over the period. • Argentina's unemployment rate is approximately 3.9% points or 84.78% higher than that of the USA at the start of the period. • USA' unemployment rate is approximately 1.6% points or 23.88% higher than that of Argentina's at the end of the period. So a candidate may gain full marks by making four separate comparisons or developing two comparisons. Note: do **not** accept a pedestrian approach i.e. a year by year approach.

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Question	Answer	Mark	Guidance
(b)	**Comment on whether an increase in employment in a country will increase investment in that country.** Up to three marks for analysis. • higher employment may increase incomes • higher incomes may increase consumer expenditure/people spend more • higher consumer expenditure/higher demand for goods and services may encourage firms to expand their output • any resulting higher consumer expenditure/economic growth may attract FDI • higher consumer expenditure may increase profits • higher profits will provide funds for investment/increase the incentive to invest • to increase output firms may increase their spending on capital goods • higher employment may push up wage costs • higher wage costs may encourage firms to replace workers with capital goods • Higher employment may increase firms' confidence • Up to three marks for evaluation • firms may have spare capacity so they will be able to produce more without undertaking investment • firms may lack confidence • firms may wait to see if demand continues high • higher incomes may not result in increased spending on domestically produced products. • If the higher employment does raise wage rates this may discourage FDI • other factors influence investment	6	Note: a candidate cannot access the evaluation marks without any analytical underpinning clearly linked to the question. Up to three marks for one evaluative point well developed e.g. firms may have unused or underused capital equipment which can be brought into use if aggregate demand increases. As a result firms may not purchase new capital equipment.

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Question			Answer	Mark	Guidance
4			**Explain why a government would want to prevent a decrease in aggregate supply.** • it would reduce productive capacity (1) • lower real GDP/reduce economic growth (1) • raise the price level/cause inflation (1) • it may lower employment/raise unemployment (1) One mark for the development of any of the above points linked to why a government would want to prevent this.	2	Up to two marks. One mark for each correct point up to a maximum of two OR Two marks for one point developed
5	(a)		**Define the term 'protectionism'.** Two marks for: protection of domestic industries from foreign competition. One mark for: protect domestic industries/trade restrictions/barriers to trade/reduce imports.	2	Up to two marks. It is one mark for who is being protected (domestic industries/products) and what they are being protected from (i.e. foreign competition/imports)
	(b)		**State three non-tariff methods of protection.** • quotas • embargoes/sanctions • voluntary export restraint (VER) • red tape/quality standards/regulation/legislation • subsidies • competitive devaluation	3	One mark for each correct identification up to a maximum of three identifications. Accept: requiring buyers of books having to turn up at airports.

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Question			Answer	Mark	Guidance
6	(a)		**State three components of the current account of the balance of payments.** • trade in goods • trade in services • income/primary income • current transfers/secondary income	3	One mark for each correct identification up to a maximum of three identifications. Accept: • investment income or profit, interest and dividends for income • transfers, net transfers of transfer payments and receipts for transfers • services or invisibles for trade in services • goods or visibles for trade in goods Note: 1 mark in total for exports and imports (net exports) or trade balance. No marks for an individual item in a component e.g. banking, tourism – too vague
	(b)		**Analyse two causes of an increase in a current account deficit of the balance of payments.** One mark each for each of two causes identified: • a higher exchange rate • higher costs of production • a reduction in the quality of domestically produced products • a rise in domestic prices/inflation • fall in incomes abroad • higher incomes at home • an increase in a net outflow of income arising from previous investment in other countries • a reduction in trade restrictions	6	One mark for each correct identification up to a maximum of two identifications, plus up to a further two marks for each of two analytical responses. NB further marks can only be awarded for analysis. Note: a maximum of two marks for each cause that is answered in wholly static terms e.g. a high exchange rate means high export prices/low import prices and so low demand for exports/high demand for imports. Note: an answer that has a static element but is largely dynamic e.g. a high exchange rate increases export prices and so lowers demand for export/increases demand for imports can gain 3 marks

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Question			Answer	Mark	Guidance
			Up to two marks each for the analysis of two causes: • higher exchange would raise export prices and lower import prices. This may reduce demand for exports and increase demand for imports • higher costs of production will mean that export prices rise relative to import prices. This may mean demand for exports falls and demand for imports increases • a reduction in quality will reduce international competitive-ness. It will discourage foreigners from buying exports and will encourage domestic citizens to purchase imports. • lower incomes abroad will reduce the ability of foreign citizens to purchase all products. Some of these products may be the country's exports • if the country's prices are increasing/there is inflation its products may become less internationally price competitive which could lead to an increase in spending on imports and a reduction in export revenue • higher incomes at home are likely to increase consumer expenditure. Some of this may be spent on imports. In addition, domestic firms may divert some products from the export to the home market • if foreign direct investment and portfolio investment into the country have exceeded the outflow of investment in the past, income in the form of profit, interest and dividends may be flowing out of the country now • a reduction in trade restrictions will worsen the current account position if e.g. removing a tariff on imports leads to a rise in expenditure on imports.		Note: a good answer could gain full marks by analysing the impact of a cause on exports and imports or just exports OR imports. Note: a maximum of 1 mark for a rise in imports and/or fall in exports. Note: remember to accept relevant causes which relate to any part of the current account.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
7			**Discuss whether a reduction in taxation will always increase a country's economic growth rate.** This question requires a discussion of the possible effectiveness of a reduction in taxation in increasing a country's economic growth rate. Answers may consider how households and firms will respond to such a reduction, which types of tax are cut and possible adverse side effects. A reduction in taxation may increase the disposable income of households and firms. This may result in a rise in consumer expenditure and investment. The resulting increase in AD may lead to a rise in real GDP/actual economic growth. Lower taxation may increase the incentive to work and so increase output. It may also shift out the AS curve by attracting foreign direct investment. Answers should evaluate whether such a reduction will be effective in increasing a country's economic growth rate. Examples of possible **Level 4** answers: • a reduction in income tax may have little impact on consumer expenditure and so on aggregate demand if workers are pessimistic about the future and save the extra disposable income. • a reduction in indirect tax may not have much effect if firms experience a rise in other costs of production. • a reduction in taxation may increase AD but this may not occur if government spending is also cut	18	Note: a maximum of 8 marks for an answer which discusses the effect of an increase in taxation on a country's economic growth rate. If awarding Level 4, indicate lower band Level 4 with L4 and higher band with EE. For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing whether the reduction will always be effective. For 13 – 15 marks, a discussion which does evaluate in terms of the effectiveness linked to the impact on aggregate demand. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, constantly relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling, punctuation and grammar.	**Level 4 [13 – 18]** **For a discussion of whether a reduction in taxation will increase a country's economic growth rate.** Note: evaluation must be supported by relevant analysis. For 16 – 18 marks, the discussion must: • make supported judgements as to why a reduction in taxation might be expected to increase the economic growth rate but why this may not always be the case • must have at least two well developed, relevant evaluative points • must be based on strong and relevant analysis and evaluation. For 13 – 15 marks, the discussion: • must be two-sided • must discuss the effects of a reduction in taxation on either AD or AS and link these to the economic growth rate • must be based on preceding analysis which must focus on the actual question set.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			• the effect will depend on what the tax revenue was used for. If less taxation results in less spending on education and health care, aggregate supply may decrease and so potential economic growth may be reduced • higher consumer spending resulting from a reduction in taxation may go on imports, possibly creating economic growth abroad rather than at home • higher aggregate demand may not increase real GDP if the economy is already operating at full capacity and does not increase aggregate supply • a cut in the lower bands of income tax may have more impact on consumer spending as the poor spend a higher proportion of their income • a cut in income tax may encourage people to work fewer hours. This would reduce aggregate supply. • A reduction in tariffs may increase spending on imports, lower aggregate demand and reduce economic growth Answers should analyse the effects of such a reduction. Examples of possible **Level 3** answers: • a decrease in income tax rates or coverage will increase disposable income. Higher disposable income may increase consumer expenditure which will raise AD. Higher AD may increase real GDP		Show where Level 3 has been awarded with L3. If awarding Level 3, 2 or 1 show where the highest level has been gained.	**Level 3 [9 – 12]** **For an analysis of how a reduction in taxation may increase real GDP and/or productive potential.** Note: an AD/AS diagram may be rewarded if it is explained.

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Question			Answer	Marks	Guidance	
					Content	**Levels of response**
			• a decrease in corporate tax rates may increase the ability and willingness of firms to invest. Higher investment may increase both AD and AS. Higher AD and AS may raise real GDP and potential economic growth • lower direct tax rates may attract workers and investment from abroad. If so AD and AS will increase • lower income tax may increase the incentive to work. This may lead to both higher output and higher AD • lower indirect taxes would reduce costs of production and so increase AS, raising productive potential • lower taxes on imports may reduce firms' costs of production which may increase AS, raising productive potential • lower taxes may reduce government expenditure as less tax revenue so aggregate demand may decrease reducing real GDP. Answers should recognise some of the effects of a reduction in taxation. Examples of possible **Level 2** answers: • it may increase consumer expenditure/AD • it may increase investment/AS • it may increase the incentive to work • it may reduce government spending • it may increase imports		For 11 + marks, there must be some depth of analysis, covering two or three effects. For 9 – 10 marks, there may be some lack of depth, covering just one or two effects in sufficient detail. Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though some may stray from the point of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning. For 7 – 8 marks, the answer should recognise at least three or four effects. For 5 – 6 marks, the answer should recognise one or two effects.	The analysis must focus on the actual question set bringing out the effects on the economy of a reduction in taxation. For 11 – 12 marks, there should be analysis of three effects or well developed analysis of two effects. For 9 – 10 marks, there should be undeveloped analysis of two effects or somewhat undeveloped analysis of one effect. Note: analysis may be from either side. **Level 2 [5 – 8]** **For an application of knowledge and understanding of the effect of a reduction in taxation.** To gain 8 marks, there should be identification of four effects of the reduction in taxation, or two effects with a hint of explanation

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			• a relevant diagram showing either AD or AS shifting to the right and real GDP/national output increasing • unsubstantiated statements on likely outcome		Some ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.	on at least one of these. To gain 7 marks, there should be identification of three effects or at least one with a hint of explanation on this. To gain 6 marks, there needs to be identification of two effects. To gain 5 marks, there needs to be identification of one effect.
			These answers will show awareness of the terms. Examples of **Level 1** answers: • economic growth involves an increase in real GDP • economic growth involves an increase in productive potential • economic growth may be caused by an increase in aggregate demand • economic growth may be caused by an increase in aggregate supply • taxation is a payment to the government. • direct taxes are taxes on income • indirect taxes are taxes are spending • the burden of an indirect tax can be passed on to the consumer		For 3 – 4 marks, there will be good knowledge of economic growth and/or taxation. For 1 – 2 marks there will be some awareness of the meaning of economic growth or taxation. Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may lack legibility.	**Level 1 [1 – 4]** For knowledge and understanding of economic growth and/or taxation.

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Wednesday 21 May 2014 – Afternoon

AS GCE ECONOMICS

F582/01 The National and International Economy

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 1 hour 30 minutes

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.

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2

Turkey – emerging out of the mist?

In 2001, Jim O'Neill, now chairman of Goldman Sachs Asset Management, first used the term 'BRICs' to cover Brazil, Russia, India and China. He correctly predicted that these economies would grow rapidly. A decade later in 2011 he identified another group of four economies which he predicted would be the stars of the future, experiencing a rapid increase in investment and living standards. He has called this group of countries 'MIST' as it includes Mexico, Indonesia, South Korea and Turkey. Some economists argue that the MIST countries are already performing better on some economic indicators than the BRIC countries. Fig. 1 shows selected data on the macro-economic performance of both the BRIC and the MIST countries in 2011.

	Inflation rate (%)	**Unemployment rate (%)**
BRIC countries		
Brazil	5.4	5.7
Russia	5.6	6.5
India	8.1	9.8
China	3.7	4.1
MIST countries		
Mexico	4.0	5.2
Indonesia	5.2	6.6
South Korea	2.9	4.2
Turkey	9.3	9.8

Fig. 1 – Inflation rate and unemployment rate, 2011

Of the MIST countries, South Korea currently has the highest Gross Domestic Product (GDP) per head and it has a surplus on the current account of its balance of payments. Households in that country spend a smaller proportion of their disposable income than is the case in the other MIST countries. Turkey has had the highest economic growth rate. In 2010 its real GDP increased by 9.5% to US$700bn and in 2011 it increased by a further 8.0%. The economy has the potential to grow at an even more rapid rate. Two of the reasons for this are that only a small proportion of women are in the labour force and that the country is experiencing a relatively rapid increase in its population.

Turkey, however, is facing two major economic challenges. One is an inflation rate which is significantly above its central bank's target of 5%. Some economists think that government spending should be cut to reduce inflationary pressure. Changes in government spending and in the other injections in Turkey have a more significant effect on the economy than in the other MIST countries. The other challenge facing Turkey is a large deficit on the current account of its balance of payments. In 2011 this deficit amounted to 9% of the country's real GDP. In US dollars, this current account deficit was second only to that of the United States of America (USA).

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An increase in the amount which the Turkish people save might reduce both the country's inflation rate and its current account deficit. Some economists suggest that the Turkish government should use monetary and supply-side policy measures to tackle both of these concerns and move the macro-economy to a new equilibrium. Improved education and training, for example, might turn a current account deficit into a current account surplus. *25*

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Answer **all** questions.

1 **(a)** State **three** components of aggregate demand.

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2 .....

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3 .....

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[3]

(b) Describe how equilibrium in the macro-economy is determined.

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..... **[2]**

(c) Explain how **two** monetary policy measures could cause equilibrium in the macro-economy to change.

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[4]

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2 Using information in Fig. 1, identify **three** differences between the performance of the BRIC and MIST countries in terms of inflation in 2011.

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[3]

3 Using information in Fig. 1, comment on whether a lower inflation rate always results in a lower unemployment rate.

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4 Comment on whether an increase in saving will reduce inflation.

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5 **(a)** Explain **two** reasons why governments seek to achieve economic growth.

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[4]

(b) Using information in the case study, analyse why Turkey may experience rapid economic growth in the future.

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6 Name **three** influences on consumer expenditure.

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[3]

7 Using information in the case study, identify evidence which suggests that the multiplier effect is likely to be different in Turkey than in South Korea.

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..... **[2]**

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8 **(a)** Using information in the case study, calculate in US$ Turkey's 2011 current account deficit.

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(b)* Discuss whether an economy will always benefit when the current account of the balance of payments moves from deficit to surplus. **[18]**

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

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OCR
Oxford Cambridge and RSA

GCE

Economics

Unit **F582:** The National and International Economy

Advanced Subsidiary GCE

Mark Scheme for June 2014

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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Annotations

Please annotate **every** response, even if no credit is given.

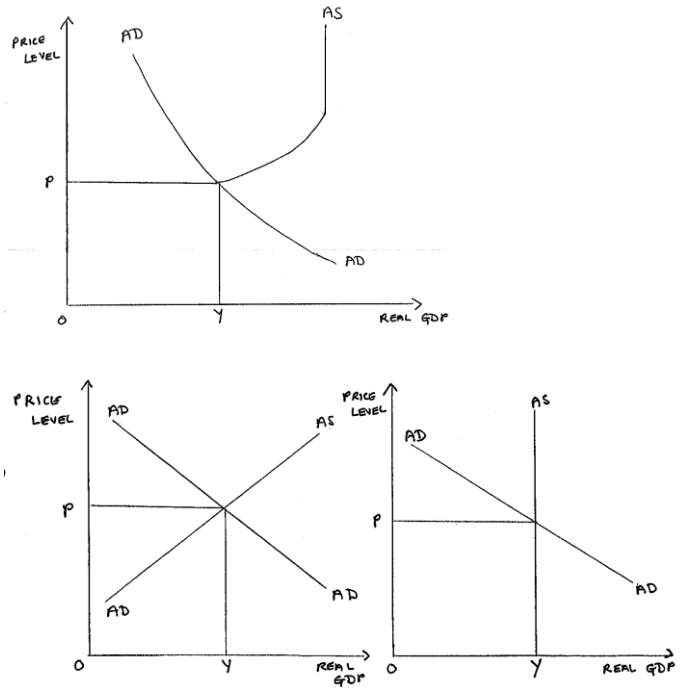
Annotation	Meaning
BP	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Unclear
BOD	Benefit of doubt
C	Comment
EE	Effective evaluation
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
NAQ	Not answered question
SEEN	Noted but no credit given
TV	Too vague
REP	Repeat

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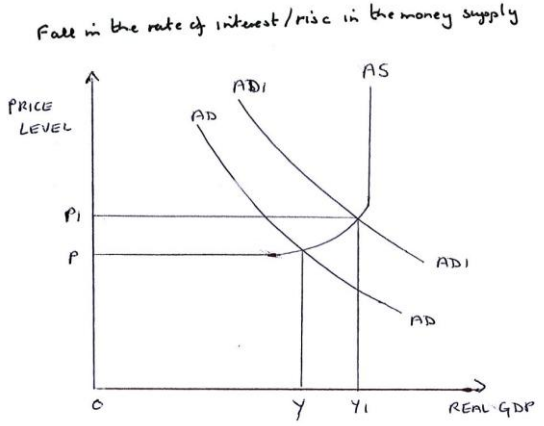
Highlighting is also available to highlight any particular points on the script.

'SEEN' to be inserted on every blank page.

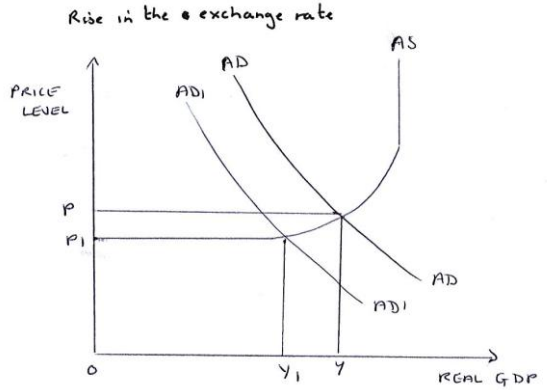
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Question			Answer	Mark	Guidance
1	(a)		**State three components of aggregate demand.** • consumer spending • investment • government spending • net exports	3	One mark for each correct identification up to a maximum of three identifications. Note: one mark for net exports, exports or imports. If exports and imports are given as two separate components, award one mark. If more than 3 given, mark the first 3. Accept e.g. C for consumer spending.
	(b)		**Describe how equilibrium in the macro-economy is determined.** Two marks for either: • interaction of aggregate demand and aggregate supply/where AD = AS or: • interaction of injections and leakages/where injections equal leakages. One mark for reference to either: • AD or AS or: • injections or leakages or: • demand for goods and services in an economy equals the supply of goods and services in an economy.	2	No marks for a purely micro answer e.g. demand equals supply. Allow up to two marks for a correct, fully labelled diagram. 

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Question			Answer	Mark	Guidance
					One mark for equilibrium not shown but the rest of the diagram is correct.
	(c)		**Explain how two monetary policy measures could cause equilibrium in the macro-economy to change.** Indicative content: • change in the rate of interest (1) this would be expected to change AD and reason why/this would be expected to alter real GDP and or the price level (1) • change in the money supply/quantitative easing (1) this would be expected to change AD and reason why/this would be expected to alter real GDP and or the price level (1) • change in the exchange rate (1) this would be expected to change AD and reason why/this would be expected to alter real GDP and or the price level (1) • introduction of inflation target (1) to reduce growth in AD by e.g. reducing growth in consumer expenditure/reduce the decrease in AS by lowering wage claims/change real GDP and or price level (1).	4	One mark for each correct identification of relevant monetary policy measures up to a maximum of two identifications, plus one further mark for each of two explanations. Note: two distinct monetary policy measures are needed for four marks and not just two directions of the same policy measure. So, for example, a candidate who answers on the basis of a rise and fall in interest rates can only gain a maximum of two marks. NB Allow a diagram approach for the explanation(s). 

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Question			Answer	Mark	Guidance
					
2			**Using information in Fig. 1, identify three differences between the performance of the BRIC and MIST countries in terms of inflation in 2011.** • MIST countries generally have lower inflation rates or - price stability / lower average inflation rate or - BRIC countries generally have higher inflation rates / lower price stability / higher average inflation rate than MIST countries or - BRIC countries average rate = 5.7% whereas MIST's average rate = 5.35% or - middle two BRIC countries in terms of inflation rate had a higher rate than middle two MIST countries • MIST countries have greater variation of inflation rates/BRIC countries' inflation rates are less widespread	3	One mark for each correct identification up to a maximum of three identifications. No marks for a comparison within a group.

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Question			Answer	Mark	Guidance
			• one MIST country/Turkey had the highest inflation rate/lowest price stability • one MIST country/South Korea had the lowest inflation rate/greatest price stability		
3			**Using information in Fig. 1, comment on whether a lower inflation rate always results in a lower unemployment rate.** Up to three marks for analysis: • relevant reason why a country with a lower inflation rate than another country/countries may have a lower unemployment rate that country/countries e.g. may be more internationally competitive leading to higher output and so more need for workers (1) • the two countries, South Korea and China, with the lowest inflation rates have the lowest unemployment rates (2) or: • China has low inflation and low unemployment (1) and • South Korea has low inflation and low unemployment (1) • the two countries, India and Turkey, with the highest inflation rates have the highest	6	Up to six marks. Note: a candidate cannot access the evaluation marks without any analytical underpinning clearly related to the question. Up to three marks for one evaluative point well made. Note: a maximum mark of 1 mark for relevant theoretical approach. There are 5 possible marks available for data analysis (1 mark for supporting evidence and one for an exception) but remember there is a **maximum of 3 marks in total for analysis.**

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Question	Answer	Mark	Guidance
	unemployment rates (2) or: • Turkey has high inflation rate and high unemployment rate (1) and • India has high inflation rate and high unemployment rate (1) • examples of exceptions: India has a lower inflation rate than Turkey but the same unemployment/Russia has a higher inflation rate than Indonesia but slightly lower unemployment/China has a higher inflation rate than South Korea but a lower unemployment rate. (1) Up to three marks for evaluation: • the data does generally support the view/does not always support the view/there are exceptions (1) • the data does not indicate how inflation and unemployment are measured (1) if the BRIC countries use a claimant count measure of unemployment and the MIST countries use the labour force survey measure (1), it may not be valid to make a comparison/reference to how one measure may result in different outcomes in different countries e.g. differences in eligibility for benefits or differences in how people respond to surveys (1) • only a small number of countries are shown (1) these may not be representative of most countries (1) which may support the view (1) • only one year is shown (1) this may be an untypical/ exceptional year (1) and so give an unusual result (1) there may be a time lag (1) • unemployment is influenced by a number of factors		

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Question			Answer	Mark	Guidance
			(1) it may fall even if the inflation rate rises (1) e.g. if expansionary fiscal policy measures are adopted (1) • the type of inflation may affect the relationship (1) demand-pull may be accompanied with high unemployment whereas cost-push may be associated with high unemployment (1)		
4			**Comment on whether an increase in saving will reduce inflation.** Up to three marks for analysis: • an increase in saving may mean a fall in consumer expenditure/investment (1) • lower consumer expenditure or investment will reduce AD/saving is a leakage from the circular flow (1) • lower AD may result in a fall in demand-pull inflation (1) • an increase in saving may increase funds available for investment (1) • higher investment may increase AS (1) • higher AS may reduce inflationary pressure/cost-push inflation (1) Up to three marks for evaluation. • an increase in saving may be accompanied by a fall in another leakage (1) taxation or imports may fall (1) and so aggregate demand may not change/effect may be offset (1) • an increase in saving may be accompanied by a rise in another injection/component of AD (1) e.g. exports may rise (1) this may leave aggregate demand unchanged/effect may be offset (1) • it is possible for both saving and consumer expenditure to rise (1) if incomes increase (1) so	6	Up to six marks. Note: a candidate cannot access the evaluation marks without any analytical underpinning clearly linked to the question. Up to three marks for one evaluative point well made.

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Question			Answer	Mark	Guidance
			aggregate demand may increase (1) • higher saving may not reduce cost-push inflation (1) it may not offset rises in raw material costs/wage rises (1) firms may be experiencing rises in costs of production which will push up the price level (1) • the effect will be influenced by the extent to which saving rises/length of time of the rise/initial rate of inflation (1) • lower investment may cause AS to decrease (1) causing cost push inflation (1) • firms may not reduce investment if confident about the future (1) • if there is considerable spare capacity, there may be no effect on the price level (1)		
5	(a)		**Explain two reasons why governments seek to achieve economic growth.** Indicative content: • improved living standards (1) higher output provides more goods and services for people to enjoy (1) • lower unemployment (1) higher output may encourage firms to employ more workers/with advances in technology and education, output has to rise for unemployment not to increase/reduces poverty/demand for labour is a derived demand (1) • higher tax revenue (1) higher output will increase income and spending which will raise both direct and indirect tax revenue/higher revenue can be spent on e.g. education and health care (1) • lower government spending on benefits (1) higher output which raise income and employment will reduce the need for a government to spend money on benefits/	4	One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations. Note: accept increased confidence as a reason.

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Question			Answer	Mark	Guidance
			this may result in a rise in government spending on e.g. education and health care (1) • increases global influence/influence in international organisations (1) can result in policies beneficial to the economy (1)		
	(b)		**Using information in the case study, analyse why Turkey may experience rapid economic growth in the future.** Up to two marks for application: • rise in population • currently only a small proportion of women are in the labour force • investment may increase • there may be improvements in education and training/use of supply-side policies • higher savings • lower inflation/monetary policies • move from a current account deficit to a surplus Up to four marks for analysis: • improved education and training: may increase the skills/quality of workers – raise productivity – increase AS/productive potential – lead to potential economic growth • improved education and training – may arise from higher government spending – G is acomponent of AD - this will increase AD – may result in higher output/AD • higher population: can increase size of the labour force – increase AS/productive potential – lead to potential economic growth • higher population: can increase consumer expenditure – C is a component of AD - raise AD –	6	Up to six marks. Up to 4 marks could be gained for strong analysis on one cause.

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Question			Answer	Mark	Guidance
			lead to higher real GDP/output • more women working/more women joining the labour force/more women seeking employment: increase size of the labour force – increase AS/productive potential – increase AS/productive potential – lead to potential economic growth • higher investment: increase AS/productive potential – lead to potential economic growth • higher investment: I is a component of AD - increase AD – may cause higher real GDP/output • higher savings: more funds for investment/capital goods – increase AS/productive potential – result in potential economic growth • lower inflation: more stability – increase confidence – increase investment – increase AS/productive potential – potential economic growth • lower inflation: more stability – increase consumer expenditure – increase real GDP/output • lower inflation – more international competitiveness – raise net exports – increase AD – increase real GDP/output • change in current account position: increase net exports – raise AD – increase real GDP/output		
6			**Name three influences on consumer expenditure.** • Income/direct taxation/wages/state benefits • level of personal debt • interest rate • confidence/expectations • inflation/price level/indirect taxation • wealth • unemployment • distribution of income	3	One mark for each correct identification up to a maximum of three identifications.

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Question			Answer	Mark	Guidance
			• exchange rate • availability of credit • saving		
7			**Using information in the case study, identify evidence which suggests that the multiplier effect is likely to be different in Turkey than in South Korea.** Any two of the points below for identification: • for recognising a change in an injection has a bigger effect on the economy/real GDP in Turkey than in South Korea • for government spending has a larger effect in Turkey • for Turkey has a current account deficit whereas South Korea has a current account surplus • for suggestion that South Koreans save a higher proportion of their income than Turkish people//spend a smaller proportion of their income than Turkish people Development of any of these points may include: may lead to a larger multiplier effect in Turkey.	2	Up to two marks. Allow two discrete identified points OR one point which is indentified and developed. Note identification points have to compare the two countries.
8	(a)		**Using information in the case study, calculate in US$ Turkey's 2011 current account deficit.** US$68.04bn/US$68,040,000,000 (3) US$68.04 or US$68bn or full correct working (2) Calculating real GDP i.e. US$756bn (1)	3	Up to three marks. Two marks for full correct working i.e. Turkey's GDP = US$700bn + 8% = US$756bn. Deficit = US$756bn + 9%.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		**Discuss whether an economy will always benefit when the current account of the balance of payments moves from deficit to surplus.** This question requires a discussion of the possible costs and benefits of a current account surplus and deficit and what factors will influence their effects. Answers may consider the effects will depend on the initial state of the economy, the cause of the movement, what is happening to other components of aggregate demand and how long the surplus lasts. A movement from a current account deficit to a current account surplus may cause a number of benefits. It will increase AD/increase injections and lower leakages which may raise real GDP and employment. It can also bring costs e.g. causing inflation as a result of higher AD and an increase in the money supply and may put upward pressure on the exchange rate. It also means that the country is producing more than it is consuming – living standards could be higher. Answers should evaluate whether such a movement is always beneficial. Examples of possible **Level 4** answers: • If an economy is operating close to full capacity, such a movement may be inflationary. If an economy is operating with spare capacity, it may have a more beneficial effect.	18	Note: a maximum of 8 marks for an answer which discusses a movement from a current account surplus to a current account deficit. If awarding Level 4 indicate lower band with L4 and higher band with EE. For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing whether the movement will always be beneficial. For 13 – 15 marks, a discussion which does evaluate in terms of a two-sided discussion but which lacks some depth or is narrowly focused. Complex ideas have been expressed clearly and fluently, using a style of words appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling, punctuation and grammar.	**Level 4 [13 – 18]** **For a discussion of whether a movement from a current account deficit to a current account surplus is always beneficial.** Note: evaluation must be supported by relevant analysis. For 16 – 18 marks, the discussion must: • come to a supported conclusion as to whether it will be mainly beneficial or harmful. • must analyse both potential benefits and costs of a movement from a current account deficit to a current surplus • must be based on strong and relevant analysis and evaluation bringing out, in depth, important influencing factors e.g. initial level of capacity, significance of the cause of the movement, the possibility of the duration of the change being influenced by changes in the exchange rate.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			• The movement may be the result of a recession in the economy causing consumer expenditure to fall and putting pressure on firms to export more. • If the movement is the result of a rise in international competitiveness, it may be more long lasting than if it is the result of changes in income at home or abroad or protectionist measures. • A current account surplus may not last long if it results in a rise in the exchange rate which will make exports more expensive and imports cheaper. • A current account surplus may not result in an increase in AD if it is offset by, for example, a decrease in government spending. • A movement from a small current account deficit to a small current account surplus may have little effect on AD and so on the economy. • If the current account deficit was matched by an inflow of FDI, it might not have posed a problem. • A current account surplus may be matched by an outflow of FDI or portfolio investment. • The effect will be more beneficial if it is the result of domestic firms becoming more competitive than the result of protectionism. • If the movement causes inflation which results in a reduction in international competitiveness, this may mean that any beneficial effects are short lived. • If the movement causes economic growth			For 13 – 15 marks, the discussion: • may analyse both potential benefits and costs of a movement from a current account deficit to a current account surplus • may evaluate either costs or benefits • must be based on relevant analysis.. Note; it is not sufficient just to state it depends on the size of the deficit and surplus. To gain a mark here, a candidate must bring out why size is significant.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			which stimulates investment, this can increase AS which can increase any beneficial effects. Answers should analyse the effects of such a movement. Examples of possible **Level 3** answers: • Net exports are a component of aggregate demand. A movement to a surplus will increase AD/A rise in net exports will increase injections into the circular flow. Higher AD can increase real GDP as firms will be encouraged to increase their output (an AD/AS diagram may be used to illustrate this point). • The higher output which may arise may result in firms employing more workers to produce the extra output. • A movement may increase confidence in the economy which may lead to a rise in investment – domestic and FDI. • Higher AD may result in demand-pull inflation. • It may increase demand for and reduce the supply of the currency. These changes will be likely to raise the exchange rate. • A higher value of products may be leaving the country than entering it. This means the economy is earning more from its domestic output than it is spending. • A current account surplus indicates that		Show where Level 3 has been awarded with L3. If awarding Level 3, 2 or 1 overall, show where the highest level has been gained. For 11+marks, there must be some depth of analysis covering two or three effects of the movement. For 9 – 10 marks, there may be some lack of depth, covering just one or two effects in sufficient detail. Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though some may stray from the point of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning.	**Level 3 [9 – 12]** **For an analysis of either the benefits or the costs of a movement from a current account deficit to a current account surplus.** The analysis must focus on the actual question set bringing out the effects on the economy of a movement from a current account deficit to a current account surplus. For 11 – 12 marks, there should be analysis of three effects of the movement or well developed analysis of two effects. For 9 – 10 marks, there should be undeveloped analysis of two effects or somewhat undeveloped analysis of one.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			living standards are lower than could occur with however. Answers should recognise some of the benefits and/or costs of the movement from a current account deficit to a current account surplus. Examples of possible **Level 2** answers: • the movement may increase AD/increase injections/reduce leakages • it may raise output • it may reduce unemployment • it may increase the exchange rate • it may cause inflation		For 7 – 8 marks, the answer should recognise at least three or four effects of the movement. For 5 – 6 marks, the answer should recognise one or two effects. Some ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.	**Level 2 [5 – 8]** **For an application of knowledge and understanding of the effects of the movement.** To gain 8 marks a candidate needs to identify four effects of the movement or at least two effects with a hint of explanation on at least one of these. To gain 7 marks a candidate needs to identify three effects or at least one with a hint of explanation on this. To gain 6 marks a candidate needs to identify two effects. To gain 5 marks a candidate needs to identify an effect. Note: these points have to be linked to the change in the current account position. No marks if linked e.g. to a budget deficit.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			These answers will show some awareness of the terms. Examples of **Level 1** answers: • A current account deficit arises when more money is leaving the country than is entering it/a current account deficit may involve import expenditure exceeding export revenue. • A current account surplus arises when more money is entering a country than is leaving it/a current account surplus may involve export revenue exceeding import expenditure. • A current account deficit is when imports are greater than exports. • A current account surplus is when exports are greater than imports. • The current account includes four parts. • The balance of payments is a record of economic transactions between the country and other countries/money coming into and going out of the economy.		For 3 – 4 marks, there will be good knowledge of a current account deficit and surplus. For 1 – 2 marks, there will be some awareness of the meaning of a current account deficit or surplus. Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive, writing may lack legibility.	**Level 1 [1 – 4]** **For knowledge and understanding of a current account surplus and/or a current account deficit.** Note: for a candidate who is in Level 1 up to 2 marks each may be awarded for the first two bullet points and a maximum of 1 mark each for the last four bullet points.

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RECOGNISING ACHIEVEMENT

Monday 13 May 2013 – Morning

AS GCE ECONOMICS

F582/01 The National and International Economy

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 1 hour 30 minutes

* F 5 8 2 0 1 *

* F 5 3 0 0 9 0 6 1 3 *

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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2

A change in China's priorities

For a number of years, China's main macroeconomic objective was to increase its economic growth rate. The Chinese government introduced a number of policy measures in pursuit of this objective. Some of these involved increasing the role of the private sector. For instance, a number of state-owned enterprises were privatised. In 2011, the government achieved its objective, with China becoming the world's second largest economy in terms of real Gross Domestic Product (GDP). In that year, China's real GDP increased to US$6480bn, whilst Japan's rose to US$5670bn. China's population, however, was 1350m whereas Japan's was only 126m.

In 2011, whilst China's economic growth rate remained impressive, concerns were raised about its inflation rate (see Fig. 1). In that year, bank lending rose and wages increased at a more rapid rate than output. These changes increased consumer expenditure although, relative to many other countries, China's consumer expenditure remained low. Its share of real GDP, at 35%, remained below that of investment which had a 40% share. Nevertheless, concern about the upward pressure on prices led the Chinese government to announce that reducing the inflation rate had become its top priority.

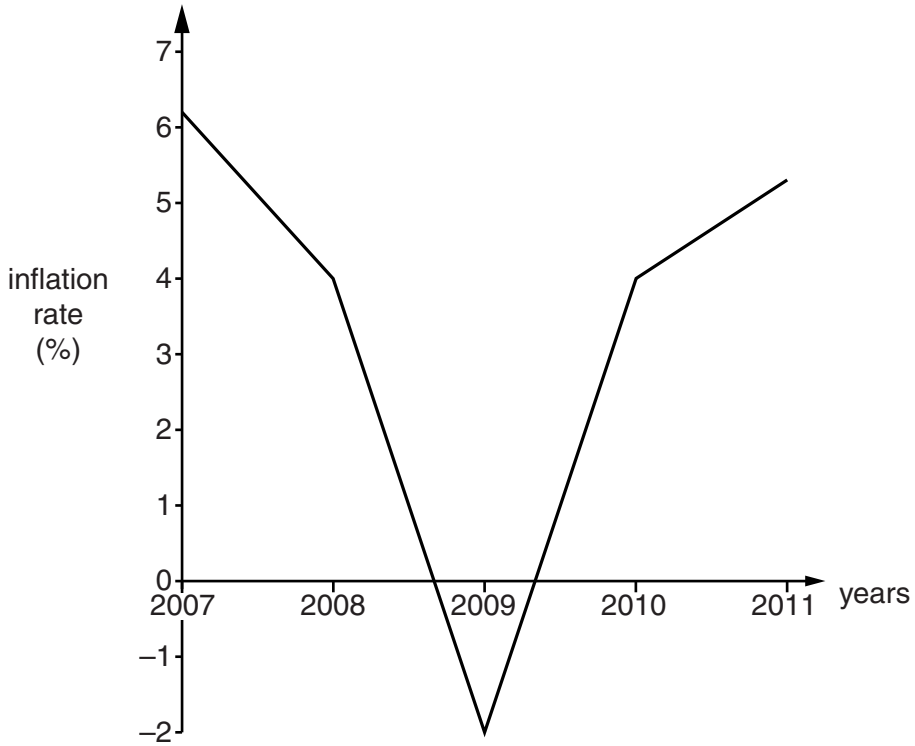


Fig. 1 – China's inflation rate, 2007–11

To combat inflation, China's central bank raised its rate of interest. Some Chinese economists suggested that this move would have an adverse effect on economic growth and unemployment. A higher interest rate, however, might put upward pressure on the value of the Chinese currency. A rise in the exchange rate might help reduce not only China's inflation rate but also the large current account surplus on its balance of payments.

If inflation is brought under control, the attention of the Chinese government may, in future years, switch to reducing unemployment. A number of economists are already suggesting that the Chinese government should increase its spending on training in order to raise the quality of the labour force. Lower inflation would also allow the government to cut income tax which might generate a number of benefits.

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Answer **all** questions.

1 **(a)** Name the **three** leakages from the circular flow of income.

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(b) Explain whether the change in China's real GDP in 2011 means that injections into the circular flow of income were greater than leakages in that year.

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2 **(a)** Describe **three** reasons why consumer expenditure in an economy may be relatively low.

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(b) Using information in the case study, calculate whether average income was higher in China or in Japan in 2011.

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3 **(a)** Define the term 'inflation'.

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(b) Using information from Fig. 1, explain what happened to the price level in China between 2007–11.

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(c) Identify and explain the **two** causes of inflation mentioned in the case study.

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4 **(a)** Using information in the case study, calculate the level of investment in China in 2011.

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(b) Comment on whether an increase in the rate of interest would reduce investment.

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5 The case study mentions a number of supply-side policy measures.

Analyse the effect of **one** of these on economic growth.

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6 Comment on whether a low unemployment rate should be a government's main macroeconomic objective.

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7* Discuss whether a rise in a country's exchange rate will always reduce its inflation rate. **[18]**

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

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GCE

Economics

Advanced Subsidiary GCE

Unit **F582:** The National and International Economy

Mark Scheme for June 2013

Oxford Cambridge and RSA Examinations

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Annotations

Annotation	Meaning
	Tick
	Cross
	Unclear
	Benefit of doubt
	Effective evaluation
	Comment
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted but no credit given
	Too vague
	Repeat

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Question			Answer	Marks	Guidance
1	(a)		**Name the three leakages from the circular flow of income.** One mark each for each of the three leakages ie saving, taxation and imports.	3	The taxation mark can be given for a type of tax eg income tax. The imports mark can be given for the idea or an example of income/expenditure going abroad eg current transfers.
	(b)		**Explain whether the change in China's real GDP in 2011 means that injections into the circular flow of income were greater than leakages in that year.** One mark for stating yes or confirming injections are greater than leakages. One mark for recognising this is because real GDP increased/economic growth occurred.	2	The 'yes' mark may be gained even if the reason is invalid. If the answer states no, award zero marks even if the answer mentions real GDP increased.
2	(a)		**Describe three reasons why consumer expenditure in an economy may be relatively low.** One mark for each of three reasons identified eg low wages, high unemployment, high taxation, low wealth, lack of consumer confidence, a high interest rate, uneven distribution of income, high level of personal indebtedness, lack of availability of credit, age, inflation, uncertainty. One mark each for each of three explanations eg: • If income is low, the ability of people to spend will be low. • High rates of taxation (direct and indirect) will lower ability to spend. • Unemployment will reduce people's ability to spend. • If wealth is low, people will not be able to borrow much as they will not be able to use it as security/it will not generate them much income.	6	Note: if identified inflation, to gain the second mark it is not sufficient just to state the purchasing power is lower or people buy less when prices rise. Treat low income and low wages as the same point.

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Question			Answer	Marks	Guidance
			• If consumer confidence is low, people may decide to increase their savings. • A high rate of interest will discourage borrowing/encourage saving. • Inflation will reduce purchasing power if prices are rising by more than wages/inflation may cause spending to be cut to maintain the real value of savings/inflation may delay their purchases in the expectation that prices may be lower in the future. • If people are uncertain about future economic prospects they may choose to save rather than spend.		
	(b)		**Using information in the case study, calculate whether average income was higher in China or in Japan in 2011.** One mark for higher in Japan. One mark for supporting evidence ie: Japan = US$5,670bn/126m = US$**45,000.** China = US$6,480bn/1,350m = US$**4,800.**	2	Answers are acceptable without $ sign.

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Question			Answer	Marks	Guidance
3	(a)		**Define the term 'inflation'.** Two marks for a sustained/persistent/constant rise in the price level/prices/average prices/CPI/RPI/cost of living. Two marks for a fall in the value of money over time. One mark for idea of rise in the price level/general price level/prices/average prices/CPI/RPI/cost of living or a fall in the value of money. One mark for idea of change occurring over time/ sustained/persistent.	2	The mark for the idea of a change over time should be awarded only if it is linked to the idea of a rise in the price level or version of such. The one exception to this is that one mark should be given for 'a change in the price level over time'. No marks should be given for a micro answer eg 'a rise in the price of a good or service over time'.
	(b)		**Using information from Fig. 1, explain what happened to the price level in China between 2007–11.** One mark for the price level rose over the period. One mark for the price level fell in 2009/deflation occurred in 2009/price level fell at the end of 2008 and some of 2009. One mark for the price level rose most rapidly at the start of the period/start of 2007. One mark for the price level rose between 2007 and 2008. One mark for the price level rose between 2009 and 2011. One mark for the price level rose at a slower rate in 2008 than in 2007. One mark for the rate of increase of the price level slowed between 2010 and 2011 / the price level increased by a higher percentage in 2011 than in 2010. One mark for price level fluctuated.	3	

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Question			Answer	Marks	Guidance
	(c)		**Identify and explain the two causes of inflation mentioned in the case study.** A rise in **bank lending** (one mark) may: • increase aggregate demand/increase the money supply (one mark) and • this may cause demand-pull inflation/higher money supply may reduce the value of money (one mark). A rise in the **wage rate** (one mark) may: • increase costs of production (one mark) and • firms may raise prices to cover the higher costs/ firms may raise prices to maintain profits (one mark) and • AS will decrease (one mark) and • This may cause cost-push inflation/cause a wage-price spiral (one mark). **Or:** A **rise in the wage rate** (one mark) may: • increase aggregate demand (one mark) and • this may cause demand-pull inflation (one mark).	6	One mark each for each of the two causes identified ie rise in bank lending and rise in wages. Up to two marks each for each of two explanations: Accept a diagrammatic approach for one mark each for each of two explanations. If identify higher consumer expenditure as one reason, award a maximum of two marks. Also accept a rise in the rate of interest but only if linked to lower investment/higher costs of production. In this case: rate of interest (one mark) may discourage investment/raise costs of production (one mark) and so decrease aggregate supply (one mark) cause cost-push inflation (one mark). Accept for demand-pull inflation: if the economy is operating close to full capacity this may drive up the price level. Do not expect but reward reference to the multiplier effect.
4	(a)		**Using information in the case study, calculate the level of investment in China in 2011.** Two marks for US$2,592bn/US$2,592,000,000,000/US$2.592tn. One mark for correct working ie 40/100 x US$6,480bn/answer which contains the figures US$2592.	2	Answers are acceptable without $ sign,

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Question	Answer	Marks	Guidance
(b)	**Comment on whether an increase in the rate of interest would reduce investment.** Up to three marks for analysis, such as: • An increase in the rate of interest will increase the cost of borrowing to firms. • A higher interest rate increases the opportunity cost of investment. • A higher interest rate may encourage firms to place profits in financial institutions rather than invest/increase reward to firms from saving. • Consumer expenditure may fall with a higher interest rate which may reduce firms' profits. • Lower profits may reduce firms' ability and willingness to invest. • Investment involves spending on capital goods. Up to three marks for evaluation, such as: • If firms expect the yield to exceed the rate of interest they will still invest/firms may be optimistic about the future. • Firms may not expect the rise in the rate of interest to last. • Banks may not pass on the rate increase to their customers. • Other factors may be favourable to investment, eg low corporation tax. • In real terms the rate of interest may have fallen. • Depends on the initial rate of interest. • Depends on the size of the increase.	6	**Evaluative marks can only be awarded if there is underlying analysis focused on the question.** One evaluative point well developed may gain three marks eg: Firms may still invest if they are optimistic about the future (1) profits may be increasing (1) as consumer spending may be rising as they themselves are optimistic about the future (1). Note: no marks if the candidate throughout confuses the nature of investment with saving by households. However some candidates may analyse lower investment in terms of the disincentive effect arising from lower consumer spending due to the higher interest rate. This is a valid approach. Note: a candidate may suggest that a rise in the rate of interest may increase investment if it stimulates a rise in loanable funds and investment has previously been discouraged by a lack of such funds. This should be credited dependent on the strength of the analysis and evaluation provided.

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Question			Answer	Marks	Guidance
5			**The case study mentions a number of supply-side policy measures. Analyse the effect of one of these on economic growth.** **Increasing the role of the private sector (privatisation)** (one mark) may: • increase competition (one mark). • raise the profit incentive (one mark). • increase investment (one mark). • reduce costs of production (one mark). • raise efficiency/productivity (one mark). • increase aggregate supply/productive capacity (one mark). • raise GDP (output)/long run economic growth/result in sustained economic growth (one mark). • increase quality of output (one mark). Increased **spending on training** (one mark) may: • increase the skills of labour/human capital (one mark) • increase labour productivity/output per worker/efficiency (one mark) • raise occupational mobility (one mark). • lower costs of production (one mark). • increase aggregate supply/productive capacity (one mark). • raise GDP (output)/long run economic growth/result in sustained economic growth (one mark). • Increase quality of output (one mark). A **cut in income tax** (one mark) may: • increase the incentive to work (one mark). • raise the size of the labour force (one mark). • increase aggregate supply/productive capacity (one mark). • raise GDP (output)/long run economic growth/result in sustained economic growth (one mark). • increase quality of output (one mark).	4	One mark for identifying one of the following supply-side policy measures ie increasing the role of the private sector (privatisation), increased spending on training or cut in income tax. Up to three marks for analysing the effect of one of the policy measures on economic growth; Note: a maximum of two marks if just refer to education. Note: credit training may increase the size of the labour force if linked to reducing the numbers of economically inactive.

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Question			Answer	Marks	Guidance
6			**Comment on whether a low unemployment rate should be a government's main macroeconomic objective.** Up to three marks for analysis, such as: • Low unemployment would involve high utilisation of resources/economy would operate close to production possibility curve. • Low unemployment will lead to high output/income. • Low unemployment may mean higher living standards. • Low unemployment may mean low poverty. • Low unemployment may reduce social problems eg crime. • Low unemployment may increase tax revenue. • Low unemployment would reduce government spending on benefits. • Low unemployment may reduce income inequality. Up to three marks for evaluation, such as: • It may conflict with other policy objectives. • Low unemployment may result in inflation. • Low unemployment may reduce flexibility. • Low unemployment may increase a current account deficit. • It will depend on the scale of unemployment relative to other macroeconomic problems. • Inflation can cause a range of problems. • Steady and sustainable economic growth can enable a government to achieve a range of macroeconomic objectives. • A current account deficit may put unwanted downward pressure on the exchange rate. • It may be necessary to focus on reducing national debt in order to retain confidence in the economy. • May be difficult to reduce unemployment. • It can depend on the type of unemployment. • The main objective should be full employment rather than low unemployment.	6	Evaluative marks can only be awarded if there is underlying analysis focused on the question. One evaluative point well made may gain three marks. In evaluation candidates may focus on why aiming for low unemployment may not be desirable and/or why other objectives may be more important. Some candidates may start by arguing that another objective should be the government's main macroeconomic objective. Accept analysis on the basis of this approach provided it is made clear why it might be more important than unemployment. Evaluation may take the form of assessing the disadvantages of taking this as the main objective.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
7			**Discuss whether a rise in a country's exchange rate will always reduce its inflation rate.** This question requires a discussion of the possible reasons why a rise in the exchange rate may reduce a country's inflation rate and why it might not. Answers may consider the impact on costs of production, competitive pressures and aggregate demand. **L4 For a discussion of whether a higher exchange rate will always reduce a country's inflation rate. (13–18)** Answers should evaluate whether a rise in the exchange rate will always reduce an economy's inflation rate, eg: • The effect of the rise will depend on how demand responds to the price changes. If, for instance, the quality of domestic products increase, demand for the economy's exports and demand for its imports may remain unchanged. • If incomes abroad rise or trade restrictions abroad are reduced, the economy may continue to enjoy a large current account surplus and so aggregate demand may not decrease. • Lower aggregate demand will have more of an impact on an economy's	18	A rise in the exchange rate will increase export prices and lower import prices. Lower import prices will directly lower the price of some products purchased. They will also reduce the cost of imported raw materials and put pressure on domestic producers to keep the price low. If net exports fall, aggregate demand may decline which may reduce demand-pull inflation.	Note: a maximum of 4 marks for an answer discussing the effects of a fall in the exchange rate. Note: Evaluation must be supported by relevant analysis. For 16–18 marks, the discussion must: • come to a supported judgement/s eg if the economy is initially operating at full capacity, the rise is more likely to reduce inflation than if it is operating with spare capacity, inflation is more likely to fall if the economy's exports and imports are high relative to GDP. • be based on strong analysis. For 13–15 marks, the discussion: • may mention that the effect will depend on what is happening to incomes abroad, whether there are trade restrictions and the initial state of the economy • must be based on the preceding analysis. The analysis must focus on the actual question set.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			• inflation rate if the economy is initially operating close to full capacity. • Producers may not pass on lower imported raw material costs to consumers. • If domestic firms do not have substitutes in the form of imports they may continue to raise their prices. • A higher exchange rate may discourage FDI as it will make exports from the country more expensive/encourage domestic firms to move abroad. This could reduce AS and lead to a higher inflation rate. • The impact on the economy's inflation rate may be greater, the more open the economy is. • The effect on aggregate demand will be influenced by what is happening to the other components of AD. • The effects may be offset by a rise in productivity or higher inflation abroad. For 16–18 marks, there must be a supported judgement based on the preceding analysis and it should reflect the strength of the analysis and evaluation. For 13–15 marks, there must be a discussion of the influencing factors and it must be based on the preceding analysis. Complex ideas have been expressed clearly and fluently, using a style of			Note: just stating it depends on the size of the rise as a larger rise will have a bigger impact is not sufficient for evaluation.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few if any errors of spelling, punctuation and grammar. **L3 For an analysis of how an increase in its exchange rate may reduce a country's inflation rate. (9–12)** Answers should analyse how an increase in its exchange rate may reduce an economy's inflation rate eg: • Higher export prices and lower import prices may reduce net exports and so lower aggregate demand which may lower demand-pull inflation. This may be combined with an explained AD/AS diagram. • Lower imported raw material prices may reduce costs of production and so slow down price rises and increase AS/reduce cost-push inflation. • Lower import prices may put competitive pressure on domestic firms to keep their costs/prices low. • A fall in import prices will directly reduce the prices of some of the products included in the basket of goods and services used to calculate the consumer prices index.			For 11–12 marks, there should be analysis of the impact on both demand-pull **and** cost-push factors. For 9–10 marks, there should be analysis in terms of either demand-pull **or** cost-push factors. The multiplier effect of lower net exports may be analysed – not required but should be rewarded.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			For 11–12 marks, there are likely to be a number of underdeveloped analytical points or a couple of analytical points which are well developed. For 9–10 marks, there are likely to be only one/two undeveloped analytical points or one analytical point which is somewhat developed. Relatively straightforward ideas have been expressed with clarity and fluency. Analysis is generally relevant, although some of it may stray from the point. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning. **L2 For an application of knowledge and understanding of how an increase in the exchange rate may affect inflation via changes in export/import prices or volumes. (5–8)** Answers should recognise how a rise in the exchange rate will affect inflation by identifying how export and import prices and volumes may change. Examples of possible L2 answers: • A rise in the exchange rate raises export prices/reduce price competitiveness of domestic producers.			8 marks for identifying the effects on prices **and** quantities of **both** exports and imports or providing a hint of explanation of the effect on aggregate demand or costs of production.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			• A rise in the exchange rate reduces import prices. • A rise in the exchange rate may reduce exports/export revenue. • A rise in the exchange rate may increase imports/import expenditure. • An accurate AD/AS diagram showing a shift to the right of the AS curve. • An accurate AD/AS diagram showing a shift to the left of the AD curve. For 7–8 marks, the answer should recognise the effect on **both** prices **and** quantities of products. For 5–6 marks, the answer should recognise the effect on **either** prices **or** quantities. Some simple ideas have been expressed in an appropriate context. There is likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive. **L1 For knowledge and understanding of the exchange rate, a rise in the exchange rate and/or the inflation rate.** **(1–4)** These answers will show some awareness of the terms. Examples of L1 answers: • Inflation rate is the percentage rise in the general price level,			7 marks for identifying the effects on the prices of **both** exports and imports and quantity of **one,** or the quantities of both and price of one. Alternatively there may be a hint of explanation of the effect on the price or quantity of exports and imports. 6 marks for identifying the effects on **either** the prices of exports and imports **or** the quantities of exports and imports. 5 marks for identifying the effect on the price **or** quantity of **either** exports or imports. Up to 2 marks on the exchange rate, up to 2 marks on the rise in the exchange rate and up to 2 marks on inflation. Up to a maximum of 4 marks.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			• The inflation rate is measured by the CPI/RPI. • AD/AS diagram showing inflation. • Diagram showing exchange rate determination. • The exchange rate is the price of a currency in terms of another currency. • The exchange rate is determined by the demand for and supply of a currency. • A rise in the exchange rate means the currency will buy more of another currency. • A rise in the exchange rate means a stronger exchange rate/appreciation. For 3–4 marks, there will be knowledge and understanding of the exchange rate and a rise in the exchange rate or inflation. For 1–2 marks, there will be knowledge and understanding of either the exchange rate or a rise in its value or inflation. Some simple ideas have been expressed. There will be errors of spelling, punctuation, grammar that will be noticeable and intrusive. Writing may lack legibility.			

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Monday 28 January 2013 – Afternoon

AS GCE ECONOMICS

F582/01 The National and International Economy

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 1 hour 30 minutes

F5300201 13

F582 01

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- The quality of your written communication will be taken into account in the marking of your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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Turn over

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2

The birth of a nation

Sudan was a very large country in north east Africa. The country was heavily dependent on agriculture and had a relatively low real Gross Domestic Product (GDP) per head. Its aggregate demand was low and its aggregate supply had been increasing relatively slowly. The country was seeking to increase its net exports. The country's pattern of trade in 2010 is illustrated in Fig. 1.

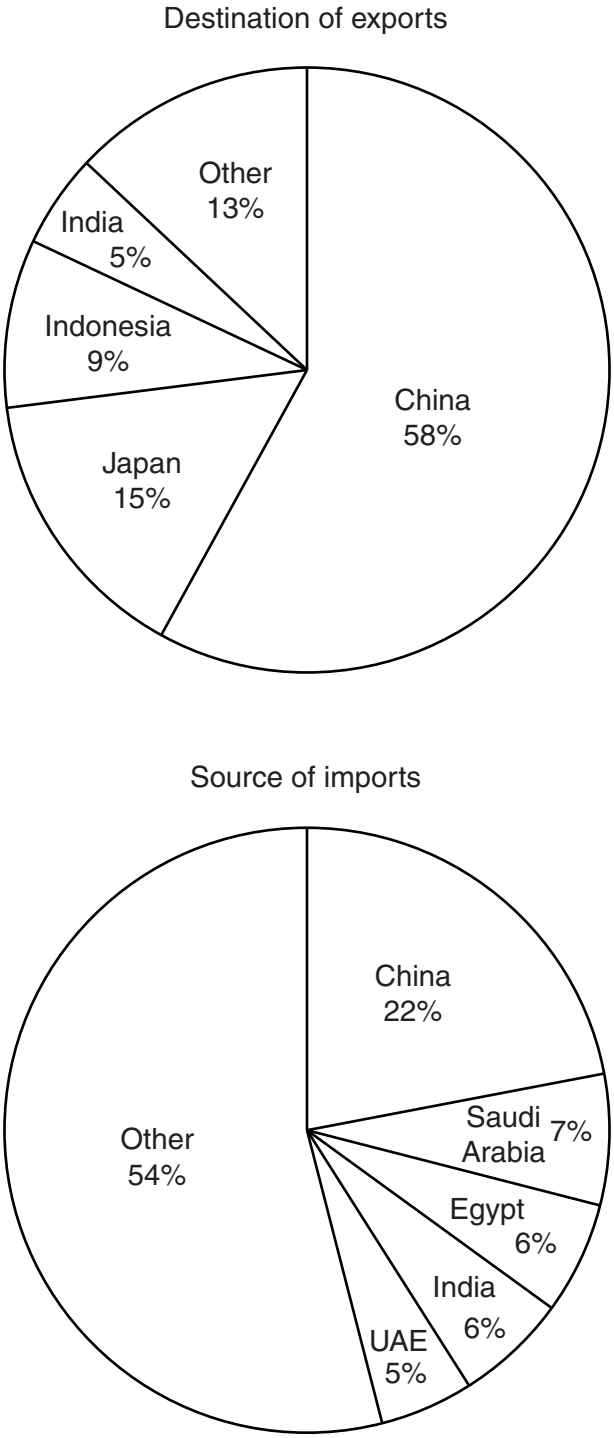


Fig. 1 – The pattern of Sudan's trade, 2010

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In the same year the country's exports totalled US$9800m, whilst its imports were US$8000m. The country's exchange rate was somewhat changeable. For instance, in November 2010 it was US$1 = 2.36 Sudanese pounds, but in December 2010 it had moved to US$1 = 2.42 Sudanese pounds.

After a long civil war, the people of the southern part of the country voted in January 2011 to break away from the north. On 9 July 2011, the Republic of South Sudan gained independence. North Sudan has kept the name of the Republic of the Sudan.

The new country of South Sudan faces a range of economic challenges. Although it is relatively rich in a number of resources, including oil, iron ore and fertile land, most of its nine million people are illiterate. The country lacks infrastructure with an undeveloped road network, no national electricity grid and a shortage of running water in many areas. Unemployment is high and the country's price level index was forecast to increase from 120 in December 2011 to 134.4 in December 2012.

The South Sudan government had set a target for economic growth of 7.2% for 2012. This was despite a recent fall in aggregate demand. The government was considering implementing a range of policy measures to improve the country's economic performance. These included increasing income tax, reducing the growth of the money supply and deregulating some industries. Some economists have expressed concerns that these measures may not be sufficient to stop the economy's aggregate supply decreasing. A decline in aggregate supply may have a harmful effect on a country's economic performance.

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Answer **all** questions.

1 **(a)** Give the reason why there may be a movement along an aggregate demand curve.

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..... **[1]**

(b) Explain the likely effect of an increase in net exports on the position of the aggregate demand curve.

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2 **(a)** Using information in the case study, calculate Sudan's trade balance with India in 2010.

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(b) Explain why an increase in Sudan's imports from China:

(i) may increase the country's current account deficit

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..... **[2]**

(ii) may **not** increase the country's current account deficit.

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3 **(a)** Using a diagram, explain how an economy's exchange rate is determined.



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(b) Using information in the case study, explain whether the value of the Sudanese pound rose or fell in December 2010.

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4 **(a)** Using information in the case study, identify and explain **two** causes of unemployment in South Sudan.

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(b) Comment on whether a fall in an economy's unemployment rate will increase economic growth.

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5 **(a)** Describe how inflation is measured in the United Kingdom.

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(b) Using information in the case study, calculate South Sudan's forecast annual inflation rate for December 2012.

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(c) Comment on whether an increase in income tax would reduce a country's inflation rate.

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6* Discuss whether a decrease in aggregate supply is always harmful to national economic performance. **[18]**

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END OF QUESTION PAPER

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown in the margins.

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GCE

Economics

Advanced Subsidiary GCE

Unit **F582:** The National and International Economy

Mark Scheme for January 2013

Oxford Cambridge and RSA Examinations

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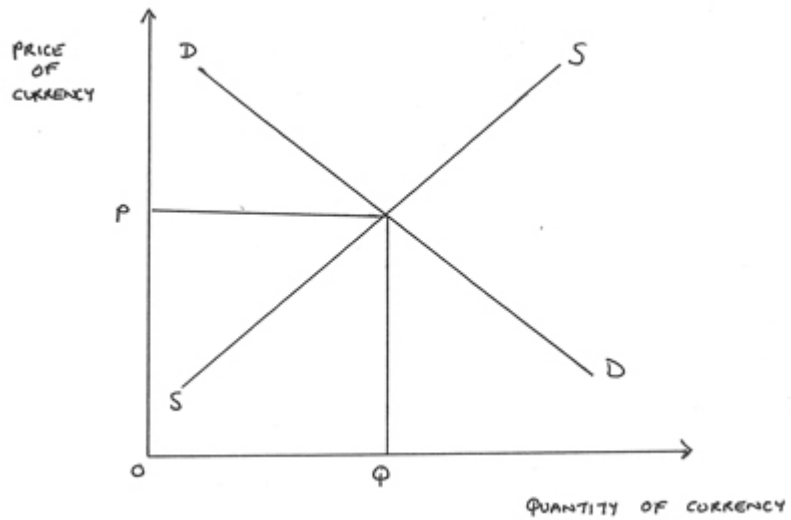
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Annotation	Meaning
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	Cross
	Unclear
	Benefit of doubt
	Comment
	Effective evaluation
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted but no credit given
	Too vague
	Repeat

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Question			Answer	Marks	Guidance
1	(a)		One mark for a change/rise/fall in the price level.	1	No mark for a reference to price.
	(b)		One mark for it will shift it to the right/shift outwards. One mark for net exports is a component of aggregate demand.	2	Accept for the first mark, a diagram showing AD shifting to the right. Accept for the second mark AD = C+I+G+(X-M).
2	(a)		Two marks for US$10m. One mark for correct working i.e. US $490m –US $480m or just 10 or -10m.	2	Allow two marks for 10m.
	(b)	(i)	Two marks for expenditure on imports may exceed revenue from exports or higher expenditure on imports may reduce a trade surplus or cause a trade deficit. One mark for imports may be greater than exports or net exports may fall or expenditure on imports may rise or more money may leave the country than enter it. One mark for China is Sudan's major source of imports. One mark for the trade balance (net exports) is part of the current account. One mark for a reduction in trade surplus/trade balance or move to a trade deficit may increase a current account deficit.	2	
		(ii)	• The quantity of imports may rise but expenditure on imports may fall. • Exports may increase by more than imports from China. • Imports from other countries may fall. • Imports of raw materials/capital goods may lead to higher exports. • Another section of the current account may experience a larger surplus/reduction in deficit.	4	Allow up to three marks for a point well made eg: - More imports may be purchased but if the price of imports has fallen, expenditure may have decreased. - The balance of trade may move to a surplus or a larger surplus if exports to China increase by more than imports from China. - Imports of raw materials/capital goods may be used to produce products which are exported or replace imports. - The income or current transfers balance may move from a deficit to a surplus/larger surplus/smaller deficit. - Exports to e.g. Japan, Indonesia or India may rise and so offset the rise in imports from China. - Imports from e.g. Saudi Arabia, Egypt, India or UAE may fall and so offset the rise in imports from China.

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Question			Answer	Marks	Guidance
3	(a)		 One mark for correct labelling of axes – quantity (of currency) and price (of currency). One mark for correct labelling of demand and supply curves. One mark for equilibrium shown – with lines and P/ER and Q or e at point of intersection. One mark for stating that the exchange rate is determined by the demand for and supply of the currency/reference to both demand and supply affecting price.	4	Accept 'exchange rate' on vertical axis. Note: no marks for AD/AS approach in terms of the D and S mark and equilibrium mark.
	(b)		One mark for it fell. One mark for recognising more of the Sudanese currency had to be exchanged to purchase one US$/fewer units of US currency had to be exchanged to purchase one Sudanese pound. One mark for it fell by US$0.06.	2	No marks for it rose in value.

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Question			Answer	Marks	Guidance
4	(a)		One mark for each correct identification up to a maximum of two identifications ie high levels of illiteracy, inflation, a fall in aggregate demand, lack of infrastructure, decrease in aggregate supply. Up to two marks each for each correct explanation e.g.: • Employers may not be willing to employ people who lack the ability to read and write/demand for these workers may be low (one mark). Such workers may not be able to carry out the tasks required/have low productivity or skills (one mark) will cause occupational immobility (one mark) will result in structural unemployment (one mark). • Inflation may reduce international competitiveness which will reduce demand for the country's products (one mark). A decrease in net exports may mean that fewer workers are required (one mark) may discourage investment (one mark). • A fall in aggregate demand involves a widespread decrease in demand for products (one mark). This may result in firms reducing their output (one mark). This will cause demand for labour in industries throughout the economy to decline (one mark) will result in cyclical/demand-deficient unemployment (one mark). • Lack of infrastructure may discourage FDI (one mark). Fewer MNCs reduce job opportunities (one mark). It may discourage domestic firms setting up/expanding (one mark) will raise firms' costs of production (one mark) lower output will reduce job opportunities (one mark). It may reduce geographical mobility (one mark) leading to regional/structural unemployment (one mark). • A decrease in AS (SRAS) will reduce output (one mark), lower output may require fewer workers (one mark). It may have occurred as a result of a decrease in investment (one mark). Fewer capital goods would require fewer workers to operate machinery etc. (one mark).	6	For illiteracy, accept lack of education/low level of education. Accept rise in income tax, reducing the growth of the money supply and deregulating some industries.

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Question	Answer	Marks	Guidance
(b)	Up to three marks for analysis: • A fall in unemployment may mean more people are in work. • Lower unemployment may increase output/real GDP/incomes. • Rise in consumer expenditure. • May increase investment. • May increase tax revenue leading to higher government spending. • Higher C, I or G may increase AD. • Higher AD may increase output/real GDP. • A rise in real GDP is an increase in economic growth. • Fuller use is made of existing resources/capacity. • Lower unemployment may enable the government to switch its spending that may increase labour productivity/skills. • Up to three marks for evaluation. • A fall in the unemployment rate does not necessarily mean more people are employed. • There are a number of reasons why people may stop being unemployed including retiring, entering education and emigrating. • Consumer expenditure may not rise despite high income if consumer confidence is low/saving may rise. • Imports may increase – raising employment abroad. • Lower unemployment may generate a multiplier effect, causing AD to rise by more than the initial change. • Depends on the size of the fall. • Depends on the duration of the fall. • Lower unemployment does not increase potential economic growth/long run economic growth unless it reduces the full employment level of unemployment. • If the fall in unemployment moves the economy closer to full employment it may have more impact on P than on Y.	6	 to indicate analytical marks.  to indicate evaluation marks. Evaluation marks can only be awarded if there is underlying analysis focused on the question i.e. a fall in unemployment linked to economic growth. Allow up to three marks for one evaluative point well made. No marks if a candidate states that the economy is at full capacity and so lower unemployment cannot cause growth. But accept if a candidate states that the economy is close to full capacity, the impact on growth may be less than the impact on inflation. Note: maximum of one evaluative mark for: depends on size as a small fall may not have much of an impact. Similarly a maximum of one evaluative mark for: depends on the duration as if it is only for a short time, it will not have much impact.

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Question			Answer	Marks	Guidance
5	(a)		• Measured by the consumer prices index/retail price index. • A base year is selected. • A survey is carried out, such as The Expenditure and Food Survey, a Family or Household Expenditure Survey. • A basket of goods and services used/a representative selection of items used. • There is recognition that there are some differences in the items included in CPI and RPI. • These products are put into different categories. • Weights are attached to items. • Weights are based on items' importance in people's expenditure. • Weights/items are changed each year. • Prices are checked in a range of outlets. • Price changes are compared over time. • Weights are multiplied by price changes. • The weighted price changes are then totalled to calculate the inflation rate.	5	

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Question			Answer	Marks	Guidance
	(b)		Two marks for 12%. One mark for correct working 14.4/120 x 100 or 12.	2	
	(c)		Up to three marks for analysing why an increase in income tax may reduce the country's inflation rate. • Lower disposable income or less to spend. • Consumer expenditure may fall. • Aggregate demand may fall (may be shown on a diagram). • Demand-pull inflation may fall (may be shown on a diagram). • Higher tax revenue may take spending out of circulation if not matched by a rise in government spending. Up to three marks for evaluation. • Consumers may keep spending unchanged if they are confident about the future and instead cut back on saving. • Inflation may be caused by factors other than a rise in income tax. • Higher income tax may stimulate wage claims and higher wages may contribute to cost-push inflation. • There may be tax evasion. • The impact will be influenced by the current level of economic activity. • The effect will depend on the size of the rise in income tax. • The effect will depend on the duration of the rise in income tax. • Time lag. • The impact will vary across different income levels. • Another/other component(s) of AD may change offsetting the fall in AD.	6	 to indicate analytical marks.  to indicate evaluation marks. Evaluation marks can only be awarded if there is underlying analysis focused on the question i.e. the link between an increase in income tax and its possible effect on inflation. Allow up to three marks for one evaluative point well made.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
6			This question requires a discussion of how a decrease in aggregate supply may influence national economic performance. Answers may consider the size of the decrease in aggregate supply, the initial level of economic activity and the possible adverse effects it may have. **L4 For a discussion of whether a decrease in aggregate supply is always harmful to national economic performance. (13–18)** Answers should evaluate whether a decrease in aggregate supply is always harmful. Examples of possible L4 answers: • A conclusion that it is generally harmful as it is likely to have an adverse effect on the government's macroeconomic objectives. • A recognition that it is likely to be harmful and this is why governments' supply-side policy measures always seek to increase aggregate supply and do not try to reduce it. • It is important for AS to increase to keep up with increases in aggregate demand. • The effect of a decrease in AS will partly depend on the cause. A decrease in investment will be particularly harmful as it will also decrease aggregate demand. • A fall due to e.g. a rise in the school leaving age/numbers in HE may later increase AS. • The effect will be influenced by the size and duration of the decrease. A larger, long run decrease will have a larger impact.	18	A decrease in aggregate supply involves a leftward shift of the AS curve. The potential output of the economy would decline. Such a decline may contribute to cost-push inflation, a fall in real GDP and may reduce international competitiveness. A decrease in aggregate supply is usually assumed to be harmful to an economy as it reduces its ability to achieve its macroeconomic objectives.	Note: a maximum of 4 marks for an answer discussing the effects of an increase in AS. Note: Evaluation must be supported by relevant analysis. For 16–18 marks the discussion must • come to a supported judgement/s e.g. yes it is likely to be harmful as it will hinder a government's ability to achieve its macroeconomic objectives and governments aim to increase AS rather than reduce it/ if there is considerable spare capacity in the economy may not be harmful in the short run but will still be harmful in the long run/a fall due to e.g. a decrease in investment will be more harmful than a fall due to a temporary decline in the labour force. • be based on strong analysis.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			• The effect on unemployment is uncertain as there may be a difference in the number and rate of the unemployed. • The effect will depend on the initial level of economic activity. If there is initially considerable spare capacity, the effect will be less harmful than if the economy is operating at full capacity. For 16–18 marks, there must be a supported judgement based on the preceding analysis and it should reflect the strength of the analysis and evaluation. For 13–15 marks, there must be a discussion of the influencing factors and it must be based on the preceding analysis. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few if any errors of spelling, punctuation and grammar.			For 13–15 marks the discussion: • may mention that the effect will depend on the cause, the size and duration of the change and will depend on the initial level of economic activity • must be based on the preceding analysis. The analysis must focus on the actual question set.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			L3 For an analysis of how a decrease in aggregate supply may affect national economic performance. (9–12) Answers should analyse how a decrease in aggregate supply may harm national economic performance e.g.: • The inclusion of an AD/AS diagram showing how it may affect an economy with some written explanation of the effect of the change in the price level and output/real GDP on macroeconomic performance. • A reduction in productive capacity will result in greater competition for resources and so generate cost-push inflation. • Lower AS may reduce real GDP/growth of real GDP and so lead to a recession/fall in economic growth and raise unemployment. • Lower output may decrease employment in the long run especially if fewer capital goods result in fewer workers being needed to operate them. • A reduction in AS may raise the relative price of exports and so increase a current account deficit. • A decrease in AS resulting from a decrease in labour productivity may reduce net exports due to a fall in their quality and/or rise in their price. For 11–12 marks there is likely to be a number of underdeveloped analytical points or a couple of analytical points which are well developed. For 9–10 marks, there is likely to be only one/two undeveloped analytical points or one analytical point which is somewhat developed.			For 11–12 marks, there should be developed analysis on the effect of national economic performance. For 9–10 marks, there should be some analysis on the effect of national economic performance

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Relatively straightforward ideas have been expressed with clarity and fluency. Analysis is generally relevant, although some of it may stray from the point. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning. **L2 For an application of knowledge and understanding of how a decrease in aggregate supply may affect national economic performance. (5–8)** Answers should recognise how a decrease in aggregate supply may affect national economic performance e.g.: • Lower AS may cause inflation • Lower AS may reduce real GDP/national output • Lower AS may reduce employment/increase unemployment/reduce unemployment. • Lower AS may increase a current account deficit • A diagram with identification of changes. For 7–8 marks, the answer should recognise the effect of a decrease in aggregate supply on three or more macroeconomic objectives. For 5–6 marks, answers may recognise the effect of a decrease in AS on one or two objectives. Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.			8 marks for recognising the effect on four macroeconomic objectives or for providing a hint of explanation. 7 marks for recognising the effect on three macroeconomic objectives. 6 marks for recognising the effects on two objectives. 5 marks for recognising the effects on one objective.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			L1 For knowledge and understanding of aggregate supply and national economic performance. (1–4) These answers should show some awareness of the terms or limited understanding of changes e.g.: • AS is the total amount that producers in an economy are willing and able to supply at a given price level. • National economic performance covers economic growth, unemployment, inflation and the current account of the balance of payments. For 3–4 marks there will be knowledge and understanding of both aggregate supply and national economic performance. For 1–2 marks there will be knowledge and understanding of just one of the terms. Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may lack legibility.			

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Friday 25 May 2012 – Morning

AS GCE ECONOMICS

F582/01 The National and International Economy

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 1 hour 30 minutes

F5300906122

F 5 8 2 0 1

Candidate forename		Candidate surname	

Centre number						Candidate number				

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- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
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INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
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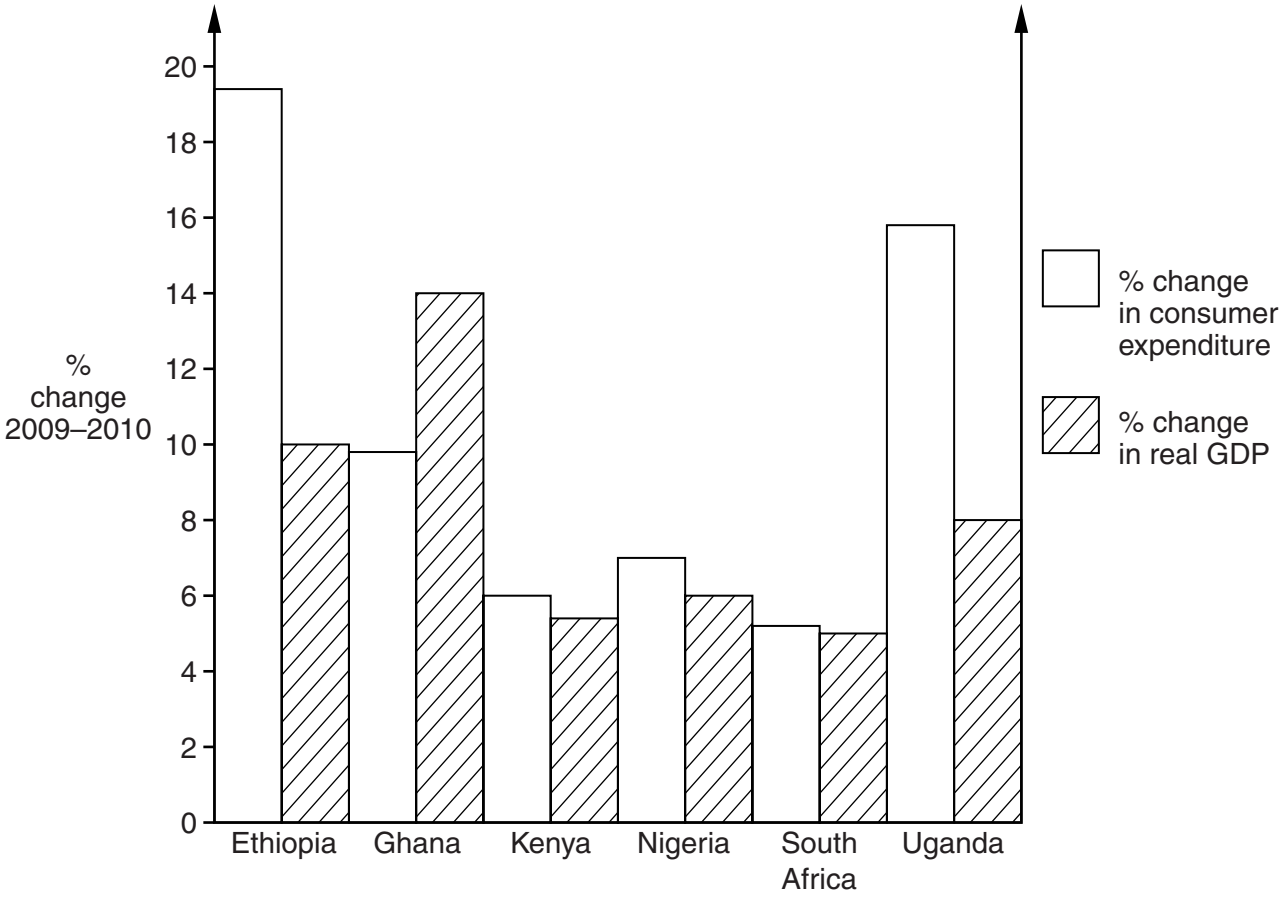
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2

Africa – leading the world

Between 2000 and 2010 six of the world's ten fastest growing economies came from sub-Saharan Africa. The region is also predicted to provide seven of the top ten places in the next decade. A number of sub-Saharan African countries had impressive economic growth rates in 2010 – see Fig. 1.

Fig. 1 Changes in real GDP and consumer expenditure in selected sub-Saharan African countries 2009–2010



Although South Africa is the region's largest economy, accounting for 40 per cent of sub-Saharan Africa's total Gross Domestic Product (GDP), it is not yet in the top ten fastest growing economies. The South African Government has set itself a target of a 6 per cent annual economic growth rate for the period 2011–2015. The country does, however, face a number of challenges in achieving this objective. *5*

One of the country's main economic problems is unemployment. It has one of the world's highest unemployment rates, which in 2010 reached 25 per cent, with 4.5m people officially registered as unemployed. The country has a relatively small informal sector (unrecorded economic activity) but a high number of discouraged workers, that is people who would like to work but think there is little point in registering as unemployed. *10*

Forty three per cent of the country's 49m people live on US$2 a day or less. Poverty arises not only because of unemployment but also because a relatively high number of unskilled workers are poorly paid. Poor educational standards mean that, whilst the country is experiencing high unemployment, it is also encountering skills shortages. The government spends 6 per cent of the country's GDP on education which is more than many countries, but over half of all students leave school without any qualifications and only 11 per cent go on to university. *15* *20*

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South Africa's trade position, however, is looking more promising. South African firms are engaging more in international trade. The country's exports more than doubled between 1994 and 2010. Inflation has fallen and has become more stable but some economists suggest that a further reduction would help to reduce the country's trade in goods deficit and overall current account deficit.

The country also has relatively low levels of saving and investment. Low rates of interest have not stimulated investment significantly and this has led some economists to argue in favour of a cut in corporation tax, that is a tax on companies' profits. Others suggest the government should help to develop a stronger financial sector since a higher proportion of the country's population having bank accounts would provide more funds for investment. The ability of the South African Government to reduce taxation and promote the banking sector is, however, constrained by its budget deficit.

There are a number of uncertainties facing the South African economy but many think it has the potential to join its neighbours in the top ten fastest growing economies.

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Answer **all** questions.

1 **(a)** Define the term 'inflation'.

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(b) State **three** costs of inflation.

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..... **[3]**

2 Using information from the case study, calculate the size of South Africa's labour force in 2010.

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..... **[2]**

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3 **(a)** Using information from the case study, analyse **two** reasons why the level of saving is low in South Africa.

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(b) Comment on whether a cut in corporation tax will increase investment.

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4 **(a)** Apart from trade in goods, identify **two** other components of the current account of the balance of payments.

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(b) Describe **two** advantages firms may gain from engaging in international trade.

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(c) Comment on whether a fall in a country's inflation rate will improve its current account position.

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5 **(a)** Explain the expected relationship between changes in consumer expenditure and real GDP.

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(b) Using Fig. 1, describe the relationship between the percentage change in consumer expenditure and the change in real GDP in the group of countries shown.

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6 **(a)** Using information from the case study, explain **two** possible reasons why the South African Government was keen to increase the country's economic growth rate.

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(b)* Discuss whether an increase in government spending on education will always increase a country's economic growth rate.

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[18]

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Additional answer space

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Unit **F582:** The National and International Economy

Mark Scheme for June 2012

Oxford Cambridge and RSA Examinations

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	Level 4
	Not answered question
	Noted but no credit given
	Too Vague
	Repeat

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Question			Answer	Marks	Guidance
1	(a)		Two marks for a sustained/persistent/constant rise in the price level/prices/average prices/CPI/RPI/cost of living or a fall in the value of money over time. One mark for idea of rise in the price level/general price level/prices/average prices/CPI/RPI/cost of living or a fall in the value of money. One mark for idea of change occurring over time/ sustained/persistent.	2	The mark for the idea of a change over time should be awarded only if it is linked to the idea of a rise in the price level or version of such. The one exception to this is that 1 mark should be given for 'a change in the price level over time'. No marks should be given for a micro answer e.g. 'a rise in the price of a good or service over time'.
	(b)		One mark for each correct identification up to a maximum of three identifications e.g. loss of international competitiveness/fall in exports/rise in imports, menu costs, shoe leather costs, administrative costs, random redistribution of income, inflationary noise, fiscal drag, uncertainty, unemployment, fall in real GDP, fall in investment, fall in the value of savings, fall in real disposable income (but must state if inflation rate is higher than wage rises), wage price spiral, fall in business confidence.	3	Nothing for rise in prices/fall in the value of money, fall in aggregate demand, fall in the exchange rate, fall in savings, fall in consumer expenditure.
2			Two marks for 18 million. One mark for correct working i.e. 4.5m x 4 or 4.5m x 100/25.	2	No marks for an answer which works towards 18m but then deducts 4.5m to arrive at 13.5m – confused thinking. Note if awarding 2 marks, put 2 ticks on the answer.
3	(a)		One mark for each of two reasons identified i.e. • low interest rates, • low incomes/low wages/unemployment/poverty • weak financial sector. Up to two marks each for each of two analytical developments i.e. low interest rates will make it less rewarding to save (1) and will increase spending/borrowing (1); when people have low incomes they have to spend all or most of their incomes (1) and cannot afford to save (1); if people do not have bank accounts (1) they may not find it easy or safe to save (1).	6	Treat low incomes/low wages/unemployment/poverty as one reason. Note: if a candidate gains e.g. only two marks for low income or poverty as one reason and then gives unemployment as a second reason with a link to income – this can be seen as an extension of the first reason, so gains 3 marks for the first reason.

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Question	Answer	Marks	Guidance
(b)	Up to three marks for analysis: • Recognising that a cut in corporation tax will enable firms to keep more of their profits/raise profits available for firms. • This cut will enable firms to invest more/have more retained profits to invest. • Higher investment involves increased spending on capital goods/technology • A reduction in corporation tax will reduce the costs of production. • Awareness of the reduction may increase business confidence. • Knowing that more profits can be kept will provide an incentive to invest. Up to three marks for evaluation: • The effect on investment will depend on the size of the cut. • Firms may not invest if there is considerable spare capacity. • Firms may not invest, despite the cut, if they are pessimistic about economic prospects. • Corporation tax may still be high/effect on investment will depend on the initial tax rate. • The cut in corporation tax may be offset by another relevant factor which is identified e.g. a rise or the level of interest rates. • Firms may not invest if the cost of capital goods is high/rising.	6	Note: a candidate cannot access the comment (evaluation) marks without any analytical underpinning. Up to three marks for one evaluative point made e.g. if an economy is experiencing a recession, firms may not feel confident to invest as they may expect sales to fall. Award for each analysis mark Award for each evaluation mark

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Question			Answer	Marks	Guidance
4	(a)		One mark for each correct identification up to a maximum of two identifications i.e. • trade in services (invisible balance) • income • current transfers.	2	Accept investment income or profit, interest and dividends (all three) for investment. Accept transfers or net transfers for current transfers. No marks for an individual item in a component – too vague.
	(b)		One mark each for each of two advantages identified e.g. access to a larger market, access to cheaper imported raw materials, ability to specialise, opportunity to take advantage of economies of scale, access to new ideas and technology. One mark each for each of two descriptions e.g. selling to a global market may enable firms to reduce costs/increase sales/increase profits/raise finance from abroad; cheaper imported raw materials will reduce costs of production; trading with other countries can help the spread of new technology which can raise the quality of what is produced/reduce costs of production.	4	The focus has to be on advantages to firms, so no marks for e.g. improve the current account position, reduce unemployment or raise real GDP.

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Question	Answer	Marks	Guidance
(c)	Up to three marks for analysis: • A fall in a country's inflation rate could increase the price competitiveness of its products • Lower inflation rate means prices rise more slowly • Exports may increase. • Imports may fall. • Export revenue may increase and import expenditure may fall • Current account deficit may decrease/current account may move to a surplus/surplus may increase. Up to three marks for evaluation: • The inflation rate may fall but the country's products may still be more expensive than those of rival countries. • An increase in price competitiveness may be offset by a fall in quality. • The reduction in the inflation rate may be offset by an increase in the exchange rate. • The reduction in the inflation rate may be offset by a fall in incomes abroad. • The reduction in the inflation rate may be offset by a rise in trade restrictions imposed by foreign governments. • An improvement in the trade in goods and services balances may be offset by deterioration in the income balance or the current transfers balance. • Trade in goods and services are only two of the components of the current account. • The outcome will be influenced by PED.	6	Note: a candidate cannot access the comment (evaluation) marks without any analytical underpinning. Up to three marks for one evaluative point well made e.g. a fall in the inflation rate may make the country's products more desirable but if incomes abroad have fallen, foreigners' ability to buy products will decrease and so their demand for all products including imports, is likely to decline. Reference to the effect on the exchange rate (rise) may be taken as an evaluative point but not an analytical point. So no marks for an answer which just discusses the effects of an exchange rate change. Note an answer which states that exports will rise and imports will fall due to a reduction in the exchange rate gains no marks for these points.  Award for each analysis mark  Award for each evaluation mark

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Question			Answer	Marks	Guidance
5	(a)		One mark for the idea of a positive relationship. One mark for consumer expenditure is a component of aggregate demand/shifts AD in the relevant direction. One mark for a change in consumer expenditure will influence how much firms produce.	2	The second mark is dependent of the first mark – i.e. recognising they will move in the same direction. Also allow explanation either way i.e. why a rise in real GDP may increase consumer expenditure e.g. higher income would enable people to spend more.
	(b)		One mark for : • All experienced rising consumer expenditure (C) and rising real GDP/a positive relationship. • C rose more rapidly/changed more in most of the countries. • Countries with the lowest/highest change in consumer expenditure had the lowest /highest change in GDP. • Ghana is an exception. • Largest gap between increases in C and real GDP occurred in Ethiopia • Change is similar in South Africa, Nigeria and Kenya but there is a larger difference in Ethiopia and Uganda. • Change in C and real GDP was closest in South Africa. Note: maximum of three marks.	3	No marks for a pedestrian approach e.g. Ethiopia had a change in C greater than real GDP, Ghana had a smaller change; Uganda had a larger change etc. No mark for confusion with absolute figures e.g.consumer expenditure was higher than real GDP in all the countries except Ghana.

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Question			Answer	Marks	Guidance
6	(a)		One mark each for each of two reasons identified, i.e. • To reduce unemployment • To reduce budget deficit • To raise living standards/reduce poverty • To catch up with other African countries • To increase quality/quantity of education • To increase investment • To increase savings Up to two marks each for each of two explanations e.g. a higher economic growth will increase the need for firms to produce more therefore create more jobs; a higher economic growth rate will raise tax revenue and reduce government spending on unemployment related benefits; a higher economic growth rate will increase demand for labour and so raise wages; a better relative economic growth rate may attract FDI which may increase exports etc.	6	

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		This question requires a discussion of the possible impact on economic growth of an increase in government spending on education and what factors influence the effect. Answers may question the quality of education, how the effect of an increase in AD is influenced by the level of capacity in the economy, how a rise in government spending may be offset by a fall in another component of AD, whether more educated people will stay in the country. L4: For a discussion of whether an increase in government spending on education will always increase a country's economic growth rate. (13–18). Answers should evaluate whether an increase in government spending on education will always increase a country's economic growth rate. Examples of possible L4 answers: • An increase in spending on education does not guarantee an improvement in the quality of education. • Higher government spending may increase inflation and not increase economic growth in the short run if the economy is operating at full capacity. • An increase in government spending may have a significant impact on economic growth in the short run if there is spare capacity and there is a large multiplier effect. • Higher government spending does not guarantee higher AD as other components of		Government spending is a component of AD. Therefore an increase in government spending on education may increase aggregate demand. This may result in a rise in real GDP. If the higher spending increases educational standards, labour productivity may increase. Higher labour productivity may increase aggregate supply and so result in an increase in productive potential.	Note: evaluation marks must be supported by relevant analysis. For 16–18 marks the discussion must: • Come to a supported conclusion e.g. higher spending on education has the potential to generate economic growth both in the short run and the long run, the impact will be influenced by whether the education results in relevant skills being developed. • Must be based on strong analysis. For 13–15 marks the discussion: • May mention that higher spending on education may not be sufficient to raise the economic growth rate (two-sided), for example, that the impact will be influenced by the initial state of the economy. • Must be based on preceding analysis.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			AD may decline. • Productive capacity will not increase if more educated workers emigrate. • Full advantage may not be gained from higher educated workers if investment falls. • By increasing AD and AS, education has the potential to create sustained economic growth. • Another policy measure maybe more effective in promoting economic growth with the reasons why explained. For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing the effectiveness of the policy measure. For 13 – 15 marks, a discussion which does evaluate but which lacks some depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling, punctuation and grammar.			

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			L3: For an analysis of whether an increase in government spending on education will always increase a government's economic growth rate (9 – 12) Answers should analyse how an increase in government spending on education may increase economic growth. Examples of possible L3 answers: • Government spending is a component of AD and higher government spending may increase AD. Higher AD may increase real GDP and so lead to economic growth. • Improved education may increase the skills and productivity of workers. Higher productivity can increase productive potential/AS and so increase potential (long run) economic growth. • Use of AD/AS diagram shifting AD and/or AS curve to the right with relevant explanation of why AD and/or AS may shift and the impact on economic growth. For 11+ marks there should be some depth of analysis covering links to economic growth through both AD and AS. For 9–10 marks there may be some lack of depth, i.e. covering links only to economic growth through AD or AS. Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point			The analysis must focus on the actual question set bringing out how higher government spending on education may increase influence the economic growth rate. For 11–12 marks there should be good analysis of how an increase in government spending on education may increase the economic growth rate both through influencing AD and AS. For 9–10 marks, there should be analysis in terms of an examination of the impact on economic growth either through an increase in AD or an increase in AS.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning. L2: For an application of knowledge and understanding of how an increase in government spending may increase a country's economic growth rate. (5–8) Answers should recognise that an increase in government spending may increase AD and/or raise the skills of workers. Examples of possible L2 answers: • More government spending will increase AD/total demand. • Higher demand will encourage firms to increase employment. • More government spending on education may increase the skills of workers. • More skilled workers can produce more products. For 7–8 marks, the answer should recognise three or four links between government spending on education and economic growth. For 5–6 marks, the answer should recognise two links/one link between government spending on education and economic growth. Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.			To gain 8 marks a candidate needs to identify four links or at least two links with a hint of explanation on at least one of these. To gain 7 marks a candidate needs to identify three links or at least one link with a hint of explanation on this. To gain 6 marks a candidate needs to identify two links. To gain 5 marks a candidate needs to identify one link.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			Examples of possible L1 answers: • Government spending is expenditure by central and local government. • The economic growth rate is a measure of changes in the country's output. • The economic growth rate is measured by changes in real GDP. • Real GDP has been adjusted for inflation. • GDP is the total output produced in a country. • Education improves qualifications. For 3–4 marks there will be both knowledge and understanding of both government spending and the economic growth rate. For 1–2 marks there will be knowledge and understanding of either economic growth in very general terms or government spending or education. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack clarity.			L1: For knowledge and understanding of government spending and economic growth rate. (1–4) These answers will show some awareness of the terms.

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Wednesday 18 January 2012 – Morning

AS GCE ECONOMICS

F582/01 The National and International Economy

Candidates answer on the Question Paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Duration: 1 hour 30 minutes

F5300201112

F 5 8 2 0 1

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- Your quality of written communication will be taken into account when marking your answer to the question labelled with an asterisk (*).
- This document consists of **12** pages. Any blank pages are indicated.

A calculator may be used for this paper

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The Latin American Decade

With a marked improvement in its economic performance, a number of economists are suggesting that the period 2011–2020 will be 'the Latin American decade'. Generally the countries of the region coped well with the global recession in 2008 and 2009, with most experiencing economic growth. Most of the countries had lowered their inflation rates by adopting inflation targeting operated by independent central banks. Poverty had been reduced in the region and income distribution had been made a little less unequal.

The region does, however, still currently face a number of economic problems. Labour productivity (that is output per worker hour) remains low. The region also does not invest enough (see Fig. 1) and lacks economic stability.

Fig. 1 Investment and economic growth rates in selected Latin American countries in 2010

	Investment as a percentage of Gross Domestic Product (GDP)	Economic growth rate (percentage change in real GDP 2009–2010)
Argentina	24.2	8.2
Brazil	17.7	7.7
Chile	20.6	5.1
Mexico	25.8	5.0
Venezuela	28.0	–2.5

Brazil is Latin America's largest economy, accounting for 33 per cent of its population and 40 per cent of its GDP in 2010. The country's inflation rate at 5 per cent in that year was above its central target of 4.5 per cent but within its margins of plus or minus two percentage points. The country's central bank had raised the rate of interest in April 2010 to reduce inflationary pressure.

Brazil has been operating its Bolsa Familia programme for some years now. The programme pays poor mothers to keep their children in school and take them for regular health checks. The programme is contributing to raising educational standards and reducing poverty. Some economists, however, suggest that more needs to be done. To help make income more evenly distributed, they advocate increasing income tax rates. Others, however, argue that increasing income tax rates would increase unemployment, and suggest not only cutting tax rates but also adopting expansionary monetary policy.

Aggregate demand and aggregate supply look set to continue to grow. In 2010 Brazil's GDP was US$2,052 billion. Exports increased during the year which contributed both to higher economic growth and a reduction in the country's current account deficit. Higher investment has also contributed to economic growth and there are signs that it will make a larger contribution to GDP in the future.

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Answer **all** questions.

1 Using information from the case study, state and explain **two** reasons why Brazil's workers may be able to produce more output in the future.

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..... **[4]**

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2 **(a)** Define the term 'economic stability'.

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..... **[2]**

(b) Using information from the case study, calculate Latin America's output in 2010.

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..... **[2]**

(c) Using information from Fig. 1, comment on whether a higher level of investment always results in a higher economic growth rate.

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3 **(a)** Define the term 'aggregate supply'.

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(b) Using an aggregate demand and aggregate supply diagram, analyse the effect of an increase in the rate of interest on an economy.

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4 **(a)** Comment on whether a rise in income tax rates will increase unemployment.

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..... **[6]**

(b) **(i)** Decisions on taxes is one of the two components of fiscal policy. Identify the other one.

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..... **[1]**

(ii) Explain the meaning of the term 'expansionary monetary policy'.

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..... **[3]**

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5 Using information from the case study, explain **two** reasons why Brazil's currency might have appreciated in 2010.

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6 **(a)** Describe why setting an inflation target may reduce inflation.

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(b)* Discuss whether inflation always harms an economy.

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[18]

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Additional answer space

If you use these lined pages you **must** write the question number next to your answer.

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GCE

Economics

Advanced Subsidiary GCE

Unit **F582:** The National and International Economy

Mark Scheme for January 2012

Oxford Cambridge and RSA Examinations

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Annotations

Annotation	Meaning
	Unclear
	Benefit of Doubt
	Cross
	Effective evaluation
	Irrelevant
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Noted
	Too vague
	Tick

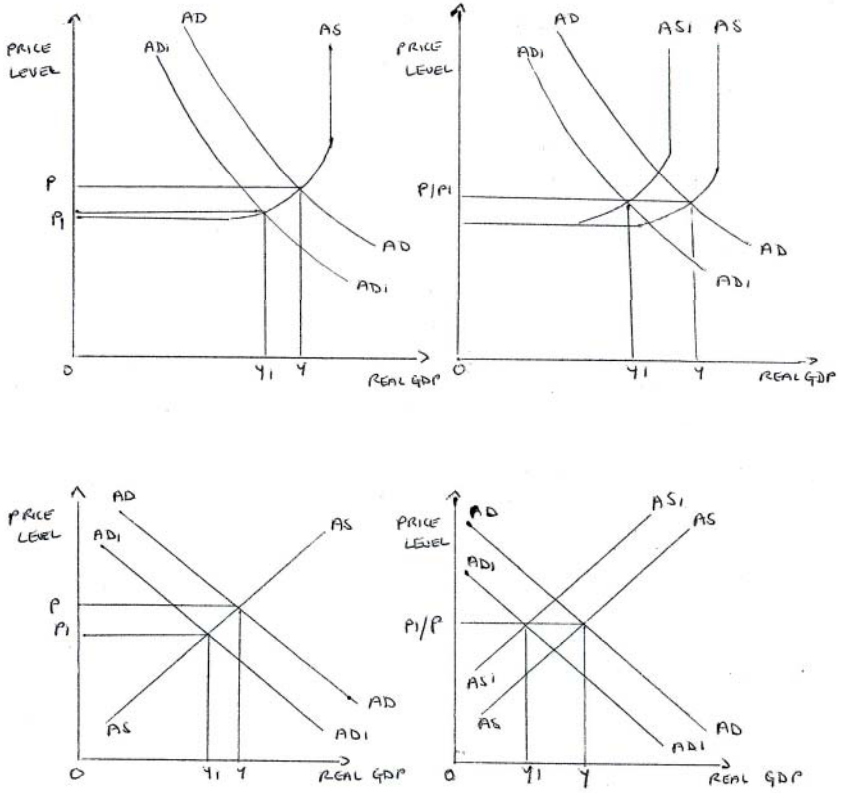
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Question			Answer	Marks	Guidance
1			One mark for each correct reason up to a maximum of two reasons ie. higher investment, improved education/rise in skills, improved health care/fitter workers, increase in number of workers. One mark for each correct explanation of the two reasons identified e.g.: higher investment will enable workers to work with more capital; improved education will increase productivity; higher AD/economic growth/lower income tax may increase the number of workers employed.	4	The explanation marks are dependent on correct identification.
2	(a)		One mark for absence of fluctuations in the economy One mark for absence of booms and bust/absence of economic or trade cycle. Two marks for avoidance of volatility in any two of - economic growth rates, inflation, employment/unemployment, exchange rates. One mark for avoidance of volatility in one of the following economic growth rates, inflation, employment/unemployment, exchange rates	2	Do not accept '**stable** economic growth' but do accept steady or sustainable economic growth as been equivalent to avoidance of volatility in the economic growth rate.
	(b)		Two marks for $5,130 billion. One mark for correct working ie $2,052 billion x 100/40 or $5,130.	2	Accept 5,130 billion

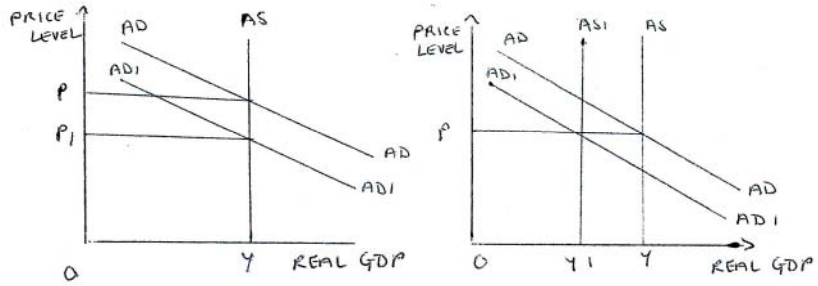
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Question			Answer	Marks	Guidance
	(c)		Analysis: Up to a maximum of three marks. One mark for data does not generally support the view. One mark for the country, Venezuela, with the highest investment as a percentage of GDP had the lowest growth (actually negative growth). One mark for the country with the lowest investment, Brazil, had the second highest growth rate. One mark for any other relevant supporting comparison e.g. Chile had a higher investment (as a %) than Mexico but a lower economic growth rate **or** Mexico had higher investment (as a %) than Argentina but a lower economic growth rate. One mark for investment increases AD/may cause actual growth. One mark for investment increases AS/causes potential economic growth. Evaluation: Up to three marks for evaluation. • data does not show the actual value of investment. • only a small number of countries shown. • only one year is shown. • economic growth rate is influenced by other factors • GDP data could be nominal not real • there may be a time lag between changes in investment and economic growth.	6	Note: a candidate cannot access the evaluation marks without any analytical underpinning clearly linked to the question. Up to three marks for one evaluative point well made e.g. economic growth rate is influenced by other factors. For instance a country could have a lower growth of investment but higher consumer spending which may lead to higher economic growth in the short run.
3	(a)		Two marks for the total output the country's producers are willing and able to supply at different price levels/ in a given time period. One mark for the total output the country's producers are willing and able to supply/total output of an economy.	2	Allow one mark for productive capacity of an economy/potential output of an economy. No marks for micro definition i.e. referring to what a firm/producer supplies.

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Question			Answer	Marks	Guidance
	(b)		Up to four marks for an accurately drawn diagram. One mark for correct labelling of axes. One mark for correct labelling of AD/AS curves. One mark for shift of AD curve to the left. FIG. 2  	7	

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Question	Answer	Marks	Guidance
	 One mark for shift of AS curve to the left. One mark for old and new equilibriums. Up to three marks for written comments. One mark for it will be likely to reduce C/I/X – M)/increase savings. One mark for it may reduce real GDP. One mark for relevant comment on the effect on the price level/inflation. One mark for it may cause an appreciation in the exchange rate. One mark for it may reduce employment/increase unemployment. One mark for the effect will depend on the initial level of economic activity/size of change in the rate of interest. One mark for an increase in the rate of interest will increase firms' costs and so reduce AS. One mark for a reduction in investment may reduce productive capacity and so reduce AS.		

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Question			Answer	Marks	Guidance
4	(a)		Up to three marks for analysis: • higher income tax rates may reduce disposable income/purchasing power. • it may reduce aggregate demand. • Firms will lower output and so need fewer workers. • lower aggregate demand may increase cyclical unemployment • may act as a disincentive to work. • higher tax rates may increase voluntary unemployment/encourage people to live off benefits. • may encourage workers to press for wage rises which may increase firms' costs of production. Up to three marks for evaluation: • the effect will be influenced by the size of the increase. • the effect will be influenced by the original rate. • workers may respond to higher income tax rates by working more hours and so AD may not fall. • higher tax income rates may be accompanied by higher government spending and so AD may not decrease/may be offset by a rise in I or (X – M). • higher income tax rates may reduce inflationary pressure and increase exports and employment. • higher income tax rates may not be a disincentive effect if unemployment benefits are low. • higher income tax rates may have less impact on structural and frictional unemployment. • higher income tax rates may not discourage consumer expenditure. • higher income tax rates may not raise unemployment if AD falls on the vertical part of the AS curve. • if income tax is progressive higher rates will affect those on higher incomes more.	6	Note: a candidate cannot access the comment (evaluation) marks without any analytical underpinning clearly linked to unemployment. Up to three marks for one evaluative point well made e.g. higher tax rates may provide a government with more tax revenue. The government may spend some of this on education and training which could reduce structural unemployment.

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Question			Answer	Marks	Guidance
	(b)	(i)	One mark for decisions on government spending/government expenditure.	1	
		(ii)	One mark for reference to the rate of interest. One mark for reference to the money supply **or** the exchange rate. One mark for recognising it is designed to increase aggregate demand/cut in the rate of interest/increase in the money supply/lower exchange rate.	3	
5			One mark each for each of two reasons identified ie. more exports/fall in current account deficit, a rise in the interest rate, economic growth, FDI, speculation, lower income tax, low/stable inflation. Up to two marks for explanation of why reason would increase the exchange rate: • More exports would increase foreigners' demand for the currency and higher demand would raise the price of the currency; • A higher interest rate will encourage foreigners to place money in the country's financial institutions which in turn will also increase demand for the currency; • Economic growth may have attracted FDI which would have increased demand for the currency; • FDI may have increased as overall investment increased and this would have increased demand for the currency; • Speculators might have considered that the value of the currency might increase due to higher economic growth or expectations that it will be the 'Latin American decade'. Such expectations would cause them to buy the currency. • If income tax rates were reduced, this might have attracted FDI, thereby increasing demand for the currency. • Low inflation/lower inflation may increase confidence in Brazilian economy and attract more investors.	6	One mark for each correct identification, Up to a maximum of two identifications, plus up to a further two marks for each of two explanations.

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Question			Answer	Marks	Guidance
6	(a)		One mark for setting an inflation target may convince people that inflation will be kept under control. One mark for recognising that if people expect inflation to be low, they will act in a way which causes inflation to be low. One mark for describing how people may behave e.g. consumers will not bring forward their purchases, workers may press for lower wage rises and firms may not push up their prices just to cover expected future higher costs. One mark for makes central bank/government more accountable/provides something for the central bank/government to aim for. One mark for can influence government/central bank policy/monetary /fiscal/supply side policy One mark for identifying a specific policy measure to influence inflation e.g. the rate of interest.	3	Up to three marks, Allow one mark for each point of description but allow development.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
	(b)		This question requires a discussion of the possible costs and benefits of inflation and what factors influence whether it is harmful or beneficial. Answers may consider that the effects of inflation will depend on its rate, its rate relative to other countries, whether the inflation has been anticipated or not, whether it is accelerating or not and what has caused it. L4 For a discussion of whether inflation is always harmful. (13 – 18) Answers should evaluate whether inflation is always harmful. Examples of possible L4 answers: • A high inflation rate is likely to cause more problems than a lower rate. For example, hyperinflation can lead to money ceasing to carry out its functions. In contrast, menu and shoe leather costs are not likely to be significant if inflation is low. • A country may be experiencing inflation but if its rate is below rival country's inflation rates, it may still be becoming more price competitive. • If the inflation rate has been correctly anticipated, measures can be taken to offset its harmful effects e.g. raising pensions in line with inflation. • A stable inflation rate is likely to cause fewer problems than an accelerating one as it will be easier for consumers, workers and firms to plan ahead. • Cost-push inflation tends to be more harmful than demand-pull inflation as it tends to be	18	Inflation can cause a range of costs including loss of international competitiveness, menu costs, shoe leather costs, random redistribution of income, inflationary noise and fiscal drag. It can also bring benefits eg encouraging firms to increase output, reducing the burden of debt and allowing firms to reduce their real wage costs without increasing unemployment.	Note: evaluation must be supported by relevant analysis. For 16 – 18 marks the discussion must: • come to a supported conclusion e.g. inflation is likely to be harmful if it is at a higher rate than trading partners as it will reduce net exports/it may not be harmful if it is of a stable level and is of a demand-pull nature as it may be accompanied by higher output • must be based on strong analysis. For 13 – 15 marks the discussion: • may mention that there are both costs and benefits of inflation, that inflation will affect different groups differently, will be influenced by how the rate compares with other countries • must be based on preceding analysis.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			associated with a fall in output. • Inflation may be harmful to some groups but beneficial to others. eg the government as a borrower and beneficiary of fiscal drag may gain whereas taxpayers and savers may lose. • Inflation can cause both costs and benefits. Whether inflation is harmful or not will depend on the relative balance of costs and benefits. • Advances in technology are reducing the significance of menu costs and shoe leather costs. For 16 – 18 marks, a discussion must have some depth to the discussion the factors influencing whether inflation always harms an economy. For 13 – 15 marks, a discussion which does evaluate but which lacks some depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling, punctuation and grammar. L3 For an analysis of either the costs or the benefits of inflation. (9 – 12) Answers should analyse the effects of inflation. Examples of possible L3 answers: • Interest rates do not tend to increase in line with inflation and so there may be a random redistribution of income from savers to			

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			borrowers. • Inflationary noise may result in consumers, workers and firms making inefficient choices. • Inflation may reduce the international competitiveness of the country's firms and so reduce export revenue and increase import expenditure. • Firms may have to spend time and effort moving money around financial institutions in order to ensure it does not lose its real value – shoe leather costs. • Fiscal drag may occur with tax bands not being adjusted in line with inflation and so workers' pay may be dragged into higher tax bands. • Firms may have to spend time and effort adjusting prices in catalogues, labels etc. – menu costs. • A low and stable rate of demand-pull inflation may encourage firms to increase their output as they will expect to sell more at a higher price. • As the rate of interest does tend to rise in line with inflation, the real burden of debt facing eg home buyers may fall. • Firms can reduce their real wage bill by raising money wages by less than inflation. This may stop firms making workers redundant to cut costs. For 11+ marks there must be some depth of analysis covering three or four effects of inflation. For 9 – 10 marks there may be some lack of depth, covering just one or two effects in sufficient detail. Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the			The analysis must focus on the actual question set bringing out why inflation causes the effect. For 11 -12 marks there should be analysis of three effects of inflation or well developed analysis of two effects. For 9 – 10 marks, there should be undeveloped analysis on two effects or somewhat undeveloped analysis on one.

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Question			Answer	Marks	Guidance	
					Content	Levels of response
			question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning. L2 For an application of knowledge and understanding of the effects of inflation. Answers should recognise some of the costs and/or benefits of inflation. Examples of possible L2 answers: • Inflation reduces exports. • Inflation causes shoe leather costs. • Inflation causes menu costs. • Inflation causes people to pay more tax. For 7 – 8 marks, the answer should recognise at least three or four effects of inflation. For 5 – 6 marks, the answer should recognise one or two effects of inflation. Examples of L1 answers: • Inflation is a rise in the price level. • Inflation means that the value of money falls. • Inflation is measured by the CPI/RPI. • Inflation may be caused by demand-pull or cost-push factors. For 3 – 4 marks there will be good knowledge and understanding of inflation. For 1 – 2 marks there will be some awareness of the meaning of inflation.			To gain 8 marks a candidate needs to identify four effects of inflation or at least two effects with a hint of explanation on at least one of these. To gain 7 marks a candidate needs to identify three effects of inflation or at least one with a hint of explanation on this. To gain 6 marks a candidate needs to identify two effects. To gain 5 marks a candidate needs to identify an effect. Some simple ideas have been expressed in an appropriate context. There are likely to errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive.

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ADVANCED SUBSIDIARY GCE

ECONOMICS

The National and International Economy

F582

Candidates answer on the question paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Friday 27 May 2011
Morning

Duration: 1 hour 30 minutes

F5305306111

F 5 8 2

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer **all** the questions.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- Your quality of written communication will be taken into account when marking your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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2

The changing fortunes of Argentina and the United States of America (USA)

Up until 1930 Argentina and the USA had a similar macroeconomic performance. Both countries were among the top ten richest countries in the world and both were expected to do well. Whilst the USA lived up to these expectations, Argentina did not and the two economies followed very different paths.

The USA opened its economy to free trade. This approach led to an increase in competition in US markets and provided US consumers with more choice. Argentina, however, used tariffs and quotas to reduce imports and more recently has even imposed taxes on its exports.

By 1990 the USA had a Gross Domestic Product (GDP) per head eight times that of Argentina. In the late 1990s and the early part of the first decade of the 21st century, the USA experienced rapid economic growth, low unemployment and price stability. In contrast, during the same period Argentina experienced falling GDP, high inflation and rising unemployment, and failed to pay off more than £49 billion in foreign loans. Spending on capital goods declined and the growth in spending by households started to slow.

In the latter part of the first decade of the 21st century, however, the picture started to change. The USA suffered an economic downturn, rising household debt and increasing unemployment. It also experienced an increasing budget deficit and an increasing deficit on the current account of the balance of payments. In contrast, Argentina experienced relatively high economic growth, falling unemployment, a budget surplus, a current account surplus and a reduction in poverty.

By 2009, however, both countries' macroeconomic performance had changed and both encountered difficulties. Fig. 1 shows selected key economic data for both countries in 2008 and 2009.

Fig. 1 Selected key economic data for Argentina and the USA, 2008 and 2009

Economic indicators	Argentina		USA	
	2008	2009	2008	2009
Economic growth rate (annual % change in GDP)	6.0	–3.5	1.6	2.6
Inflation rate (annual % change in consumer price index)	9.7	9.1	2.4	–0.3
Unemployment rate (ILO measure)	8.0	8.4	5.7	9.4
Current account balance (% of GDP)	2.9	2.6	–4.8	–3.0
Budget balance (% of GDP)	1.7	–1.3	–2.4	–13.7

In its February 2009 budget, the US government increased its spending, cut income tax rates for low and middle income earners and raised the rate for high earners. The US interest rate had already been driven down to almost 0%. Argentina was also pursuing expansionary fiscal and monetary policies. Some economists, however, expressed concern that such approaches would not necessarily help the US and Argentine governments to achieve all of their objectives. They urged both governments to remember the importance of not only increasing aggregate demand but also of increasing aggregate supply.

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Answer **all** questions.

1 **(a)** What is meant by the term 'international trade'?

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..... **[2]**

(b) Using information in the case study, identify **two** methods of trade restriction.

1 .....

2 ..... **[2]**

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2 **(a)** Define the term 'Gross Domestic Product (GDP) per head'.

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..... **[3]**

(b) Describe **two** economic costs of rapid economic growth.

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2 .....

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..... **[6]**

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3 **(a)** Using information from the case study, describe what happened to consumer expenditure in Argentina in the late 1990s and early part of the first decade of the 21st century.

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..... **[2]**

(b) Explain the likely relationship between changes in consumer expenditure and investment.

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..... **[4]**

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4 Using Fig. 1:

(a) describe what happened between 2008 and 2009 to the price level in Argentina.

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..... **[2]**

(b) describe what happened between 2008 and 2009 to the budget balance in:

- Argentina

  .....

  .....

- the USA.

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  ..... **[2]**

(c) explain whether it is possible to conclude that there were fewer unemployed people in the USA than in Argentina in 2008.

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..... **[3]**

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5 **(a)** Explain why the changes in income tax implemented by the US government in February 2009 may have caused inflation.

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(b) Comment on whether a cut in tax rates will always result in a budget deficit.

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..... **[6]**

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6 Comment on whether there is a conflict between the policy objectives of reducing unemployment and reducing inflation.

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7* Discuss the effectiveness of lowering the rate of interest in order to stimulate economic growth. **[18]**

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.... [18]

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Additional answer space

If you use these lined pages you **must** write the question number next to your answer.

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GCE

Economics

Advanced Subsidiary GCE

Unit **F582:** The National and International Economy

Mark Scheme for June 2011

Oxford Cambridge and RSA Examinations

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Question	Expected Answer	Mark	Rationale
1 (a)	**What is meant by international trade?** Up to a total of two marks One mark for exchange of products One mark for between countries / over national boundaries **Or** One mark for reference to exports One mark for reference to imports	[2]	Reference to trade on its own not sufficient.
1 (b)	**Using information in the case study, identify two methods of trade restriction.** One mark for each correct identification, up to a maximum of two identifications. One mark – tariffs/tax on imports One mark – tax on exports One mark – quotas	[2]	
2 (a)	**Define the term 'Gross Domestic Product' per head.** Up to three marks One mark for total output/income/expenditure. One mark for linking total output/income/expenditure to **either** an economy/country **or** to over a given time period One mark for GDP/total output/total income/total expenditure divided by population.	[3]	
2 (b)	**Describe two economic costs of a rapid economic growth.** Costs including: • current account deficit • inflation • depletion of natural resources • pollution • economic instability • increase in income inequality. Exemplar response: a rise in AD may increase output but may, as full capacity is reached, cause demand–pull inflation	[6]	One mark for each correct identification up to a maximum of two identifications, plus up to two marks for each of two descriptions of why they are costs and/or why they arise from growth.

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Question	Expected Answer	Mark	Rationale
3 (a)	**Using information in the case study, describe what happened to consumer expenditure in Argentina in the late 1990s and early part of the first decade of the 21st century.** Up to two marks Two marks for it grew more slowly One mark for it grew.	[2]	No marks for just mentioning that consumer expenditure 'started to slow'. **BUT** accept "growth in spending by households started to slow" for 2 marks
3 (b)	**Explain the likely relationships between changes in consumer expenditure and investment.** Up to four marks One mark for positive relationship One mark for higher consumer expenditure will mean firms will be selling more products. One mark for higher consumer expenditure may increase profits One mark for to expand output, firms may purchase capital goods One mark for higher profits will increase the ability of firms to invest One mark for higher C may increase firms' confidence. One mark for higher investment may improve the quality of products One mark for higher investment may reduce costs and, in turn, prices. One mark for higher quality of products/lower prices may increase consumer expenditure. One mark for the idea of the multiplier effect upon consumer expenditure. Note: Candidates may refer to the accelerator theory. This is **not** required but should be rewarded if given.	[4]	Note: obviously acceptable to explain how a decrease in consumer expenditure could reduce investment/lower investment could reduce consumer expenditure.

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Question	Expected Answer	Mark	Rationale
4 (a)	**Using Fig.1 describe what happened to the price level in Argentina between 2008 and 2009.** Up to two marks One mark for it rose One mark for more slowly	[2]	
4 (b)	**Using Fig. 1, describe what happened to the budget balance position in each of Argentina and the US over the period shown.** Up to two marks One mark for Argentina's budget balance went from a surplus to a deficit. One mark for the US's budget deficit got larger.	[2]	Argentina – not sufficient to just state it went into a deficit.
4 (c)	**Explain whether it is possible to conclude that there were fewer unemployed people in the USA than in Argentina in 2008.** Up to three marks One mark for stating no. One mark for data shows % not number unemployed One mark for size of labour forces are different/not known One mark for not all unemployed maybe recorded One mark for the ILO measure may be subject to errors One mark for no source is given for the information. Maximum three marks.	[3]	Accept size of the population is not known.

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Question	Expected Answer	Mark	Rationale
5 (a)	**Explain why the changes in income tax, implemented by the US government in February 2009 may have caused inflation.** Up to three marks One mark only for identifying what has happened to tax rates. E.G. • There was a difference between low, middle and high earners. • Recognising that the income tax rates on lower and middle income earners were reduced whilst the income tax rate on high earners was increased. One mark only for any one of the following points: • consumer expenditure is likely to have risen • higher consumer expenditure may have increased aggregate demand • lower and middle earners tend to spend a high proportion of their income/have a high marginal propensity to consume. • high earners tend to spend a small proportion of their income/have a low marginal propensity to consume. One mark only for: • higher AD may have caused inflation/if AD increases more rapidly than AS, there will be inflation. Maximum three marks.	[3]	

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Question	Expected Answer	Mark	Rationale
5 (b)	**Comment on whether a cut in tax rates will always result in a budget deficit.** Knowledge and understanding – For one mark One mark for a budget deficit arises when government spending exceeds taxation (although it can be implicit rather than explicit). Analysis – Up to two marks One mark for a cut in tax rates may change the balance between tax revenue and government spending. One mark for changes in consumer spending/investment/saving may influence tax revenue. One mark for changes in the hours worked may change income tax revenue. One mark for a cut in tax rates will increase disposable income/net profits and/or lower prices of products. One mark for a cut in tax rates may influence incentives to work, enterprise and saving. Comment Up to four marks for evaluating whether a cut in tax rates will result in a budget deficit, eg: • coming to a judgement • it will depend on the initial position • it will depend on the size of the cut in tax rates • if the incentive effects are uncertain • the effects of cuts in direct and indirect tax on consumer expenditure and investment are uncertain • it will depend on what the government does to spending • a cut in tax rates may reduce tax evasion. Note a maximum of 6 marks.	[6]	Evaluative marks can only be awarded if there is underlying analysis. Allow up to three marks for one evaluative point well made. No marks to be awarded if there is confusion between a balance of payments/current account deficit – even if reference to an increase in disposable income is made.

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Question	Expected Answer	Mark	Rationale
6	**Comment on whether there is a conflict between the policy objectives of reducing unemployment and reducing inflation.** Analysis Up to four marks for explaining why the objectives may conflict: One mark for: • identifying an appropriate measure/policy which will increase/decrease AD • identifying the effect of the measure/policy on consumer expenditure • identifying an appropriate measure/policy which will increase AS • Lower inflation may be achieved by increasing AS • Identifying the likely effect of a change in AD on unemployment • Identifying the likely effect of a change in AD on inflation • A change in unemployment may change consumer expenditure • A change in unemployment may change AD • A change in unemployment may influence wage claims and so may affect cost-push inflation. Comment Up to four marks for evaluating whether the policy objectives conflict eg: • it will depend on how much unemployment falls • it will depend on the cause of unemployment • It may depend on the cause of inflation • it will depend on the initial level of economic activity • different policy measures may be used to achieve the objectives • supply-side policies may be able to reduce both unemployment and inflation in the long run • lower inflation may reduce unemployment by making the country's products more internationally competitive • other costs may fall and so cost-push inflation may not occur. Note: a maximum of 7 marks	**[7]**	Evaluative marks can only be awarded if there is underlying analysis Up to three marks for one evaluative point well made. Reference to an appropriate measure/policy might be e.g. an increase in tax or deflationary monetary policy to reduce inflation. Candidates may approach this question by either examining how policy measures may influence both objectives, or by considering how achieving one objective will impact upon the other.

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Question	Expected Answer	Mark	Rationale
7	**Discuss the effectiveness of lowering the rate of interest to stimulate economic growth.** A lower interest rate would be expected to increase AD which could lead to short run economic growth. It may also cause an increase in AS and so may lead to long run economic growth. Answers should recognise that the effect will depend on a number of factors. For example it may not be possible to cut the rate of interest rate as it may already be very low. **L4 For a discussion of how lowering the rate of interest may stimulate economic growth. (13 – 18)** Examples of possible L4 answers: • The effect will depend on the size of the change. A larger cut may have a greater impact • The effect will be influenced by the initial level of economic activity. It is likely to be more beneficial if the economy is initially operating with spare capacity. If an economy is operating close to full capacity, it may initially cause demand-pull inflation • Lowering the rate of interest may not lead to higher AD if consumers and firms lack confidence • In the long run it is important for both AD and AS to increase for economic growth to be sustained and sustainable • It is possible that commercial banks may not focus on a lower rate of interest • May be offset by another policy measure.	[18]	Only accept as evaluation another policy measure may be more effective if explained why. **Note a maximum of 13 marks for an answer which analyses and evaluates the effects on AD without a clear link to economic growth.**

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Question	Expected Answer	Mark	Rationale
	For 16 – 18 marks, the discussion must have some depth to the factors influencing the effectiveness of the measure. For 13 – 15 marks, a discussion which does evaluate but which lacks some depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling punctuation and grammar.		For 18 marks a candidate needs to have two strong evaluation points or one strong and two reasonable For 17 marks a candidate needs to have at least one strong evaluation point and one reasonable point For 16 marks a candidate needs to have one strong evaluation point on one brief evaluation point or two reasonable evaluation points For 15 marks a candidate needs to have one strong evaluation point or one reasonable evaluation point and one brief evaluation point For 14 marks a candidate needs to have one reasonable evaluation point or two brief evaluation points For 13 marks a candidate needs to have one brief evaluation point
	L3 For an analysis of how a lower rate of interest may stimulate economic growth. (9 – 12) Answers should analyse how a lower rate of interest may influence AD and AS, eg. • The inclusion of an AD/AS diagram showing how it may affect economic activity with an explanation of why AD/AS may increase • It may increase consumption as saving will be discouraged • It may increase C as borrowing will be cheaper		12 marks for good analysis of the impact on two influences on AD and also the impact on AS. 11 marks for good analysis of the impact on two influences on AD **or** on AS, or one good and one reasonable point on AD and one on AS 10 marks for reasonable analysis of the impact on two influences on AD.

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Question	Expected Answer	Mark	Rationale
	• It may increase C as discretionary income will rise • It may increase investment as borrowing will be cheaper • It may increase I as firms will expect higher sales • It may increase I as the opportunity cost of investment will fall • It may increase (X-M) as a lower interest rates may reduce the exchange rate higher C, I and (X-M) will raise AD • It may increase AS as higher I will increase productive capacity • An increase in AD may lead to an increase in real GDP. There should be some direct link in the analysis to economic growth. This might be by the use of an AD/AS diagram. Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning. **L2 For an application of knowledge and understanding of how a lower rate of interest may stimulate economic growth. (5 – 8)** Answers should recognise how a lower interest rate may affect economic growth. Examples of possible L2 answers: • A lower interest rate may increase C • A lower interest rate may increase I • A lower interest rate may increase (X-M) • A lower interest rate may increase AD • A lower interest rate may increase AS. For 7 – 8 marks, the answer should recognise the effect of a lower interest rate on three or four factors.		9 marks for reasonable analysis of the impact on one influence on AD. 8 marks for recognising the effect on AS and three components/impacts on AD **and** a hint of explanation on at least one of these. 7 marks for recognising the effect on three components/impacts on AD **or** a hint of explanation on at least one of these. 6 marks for recognising the effect on two components/impacts on AD. 5 marks for recognising the effect on one component/impacts on AD.

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Question	Expected Answer	Mark	Rationale
	For 5 – 6 marks, answers may recognise the effect of a lower interest rate on one or two factors. Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar, some of which may be noticeable and intrusive. **L1 For knowledge and understanding of economic growth and the rate of interest. (1 – 4)** These answers will show some awareness of the terms. Examples of L1 answers: • Macroeconomic performance covers economic growth, unemployment, inflation and the current account position • Economic growth is an increase in real GDP • Economic growth is an increase in an economy's productive potential • The interest rate is the cost price of money • The interest rate is the reward for saving • The interest rate is the cost of borrowing. For 3 – 4 marks, there will be knowledge and understanding of both economic growth and the interest rate. For 1 – 2 marks, there will be knowledge and understanding of economic growth and the interest rate. Some simple ideas have been expressed. There will be errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may lack legibility.		

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RECOGNISING ACHIEVEMENT

ADVANCED SUBSIDIARY GCE

ECONOMICS

The National and International Economy

F582

Candidates answer on the question paper.

OCR supplied materials:
None

Other materials required:
- Calculators may be used

Wednesday 19 January 2011
Morning

Duration: 1 hour 30 minutes

OCE/23808

F582

Candidate forename		Candidate surname	

Centre number						Candidate number				

INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. If additional space is required, you should use the lined pages at the end of this booklet. The question number(s) must be clearly shown.
- Answer **all** the questions.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- Your quality of written communication will be taken into account when marking your answer to the question labelled with an asterisk (*).
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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2

Irish Republic – from miracle to nightmare?

Between 1990 and 2006 the Irish economy appeared to be transformed. The so-called Celtic Tiger became Europe's fastest growing economy, with an average annual growth rate of real Gross Domestic Product (GDP) of 7%, and experienced one of the most rapid falls in unemployment – from 17% to 4%. As a result, it went from having a GDP equivalent to 70% of the European Union (EU) average in 1990 to a GDP equivalent to 136% in 2006. So good was Ireland's macroeconomic performance in this period that The Economist magazine declared that the overall quality of life in the country was the highest in the world.

Initially Irish expansion was fuelled by higher exports and more foreign companies setting up in the country. Both these factors were promoted by the Irish government's investment in education and infrastructure. Low corporate taxes also proved attractive to a range of high-tech multinational companies. After 2002, the main driving force behind economic growth switched to a boom in house building and retail sales. Injections rose more rapidly than leakages which in turn increased the circular flow of income. So rapid was the growth in the Irish economy that some economists argued in favour of a cut in government spending to reduce demand-pull inflation.

By 2007, with its real GDP at £180 billion the Irish economic miracle, however, started to falter. Economic growth slowed and unemployment started to rise. A year later Ireland became the first country in the euro area (those EU members which have adopted the euro) to go into recession. Economists were forecasting that real GDP would fall by 8% in 2009 and by an even higher percentage in 2010. Some multinational companies including Dell, the world's second largest personal computer maker, pulled out of the country. Ireland also experienced a property slump and a rise in household debt as a percentage of GDP from 60% to almost 200%, one of the highest figures in the world. In addition, unemployment rose faster and the government's budget position (tax revenue minus government expenditure) moved into deficit (see Fig. 1). This deficit was the highest in the EU in percentage terms.

Fig. 1 The Irish unemployment rate and budget balance 2004–2009

Year	Unemployment rate (%)	Budget balance as % of GDP
2004	4.0	1.0
2005	4.0	1.8
2006	4.0	2.4
2007	4.5	0.0
2008	5.0	–4.0
2009*	10.0	–12.0

*estimate

The Irish government reacted to the rising budget deficit by cutting public spending and raising income tax. It was also hoping that a depreciation in the euro, Ireland's currency, would improve its trade in goods balance, despite a rise in the tariffs imposed by some foreign governments on some of Ireland's exports. Exports play a key role in Ireland's macroeconomic performance as the country sells a high proportion of its output to other countries. Indeed, in 2007 Ireland exported four-fifths of what it produced.

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Answer **all** questions.

1 **(a)** Define the term 'unemployment rate'.

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..... **[3]**

(b) Identify **two** economic costs of unemployment.

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2 Analyse how **two** of the policies pursued by the Irish government between 1990 and 2006 may have promoted economic growth.

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3 **(a)** What is meant by the circular flow of income?

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(b) State the **three** injections into the circular flow of income.

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4 **(a)** Describe what happened to output in Ireland in 2007.

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(b) State and explain **three** likely reasons why consumer expenditure may have fallen in Ireland in 2009.

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5 Comment on whether the relationship between unemployment and the budget balance shown in Fig. 1 is the one economists would expect.

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6 **(a)** Describe how tariffs imposed by foreign governments may make it difficult for a country to sell its exports.

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(b) Using information in the case study, calculate the value of Ireland's exports in 2007.

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(c) Comment on whether a depreciation in its exchange rate is likely to improve a country's trade in goods balance.

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7* Discuss the effectiveness of reducing government spending in order to lower demand-pull inflation. **[18]**

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Additional answer space

If you use these lined pages you **must** write the question number next to your answer.

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GCE

Economics

Advanced Subsidiary GCE

Unit **F582:** The National and International Economy

Mark Scheme for January 2011

Oxford Cambridge and RSA Examinations

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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
1	(a)		**Define the term 'unemployment rate' (line X).** Up to three marks 3 marks for the percentage of the labour force who are out of work but willing and able to work. 2 marks for those who are out of work but willing and able to work 1 mark for percentage of the labour force/workforce/working population. 1 mark for out of work. 1 mark for those willing and able to work. 1 mark for equation.	[3]	
	(b)		**Identify two economic costs of unemployment.** eg lost output/lower GDP/producing inside PPC/inefficiency. Lower income/lower living standards/increased poverty lower tax revenue, increased spending on unemployment benefit (job seekers' allowance).	[2]	One mark for each correct identification up to a maximum of two identifications. Note – do not accept crime on its own – it would have to be linked to higher government spending. Do not accept lower consumer expenditure/AD.
2			**Analyse how two of the policies pursued by the Irish government between 1990 and 2006 may have promoted economic growth.** 1 mark each for each of two policies identified from the case study, ie government investment in education, government investment in infrastructure and low corporate taxes. 1 mark each for each of two effects of the policies, eg government investment in education may have raised labour productivity, government investment in infrastructure may have reduced firms' costs of production, low corporate taxes will increase firms' net profits, may encourage an increase in investment, policies may increase AD and AS.	[6]	To gain any marks must identify a policy/policies.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			1 mark each for each of two links to the higher exports and FDI referred to in the case study or to economic growth, eg higher labour productivity may increase the quality of exports, lower costs of production may increase international competitiveness, low corporate taxes may increase the output produced by foreign and domestic firms, higher AD may lead to actual economic growth, higher AS will increase potential economic growth.		
3	(a)		**What is meant by the circular flow of income?** Up to two marks 2 marks for the movement of spending and income throughout the economy **or** 2 marks for flow of products and income between producers/firms and households/consumers. 1 mark for the movement of income/spending/money within the economy **or** the idea of money entering the economy (injections) **and** money leaving the economy (withdrawals/leakages). 1 mark for the idea of transactions between producers/firms and households/consumers.	**[2]**	Accept an accurate diagrammatic representation for two marks.
3	(b)		**State the three injections into the circular flow of income.** exports government spending investment.	**[3]**	One mark for each correct identification up to a maximum of three identifications.
4	(a)		**Describe what happened to output in Ireland in 2007.** Up to two marks 2 marks for output rose more slowly. 1 mark for output rose.	**[2]**	

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Question			Expected Answer	Mark	Rationale/Additional Guidance
4	(b)		**State and explain three likely reasons why consumer expenditure may have fallen in Ireland in 2009.** 1 mark each for each of three reasons from: a fall in income/GDP, property slump, rising debt, rising unemployment a fall in consumer confidence rise in income tax cut in government spending deflation (did occur in Ireland in 2009) 1 mark each for each of three explanations, eg a fall in income reduces the amount people have to spend, a property slump reduces wealth, rising household debt may discourage borrowing/reduces discretionary income, higher unemployment reduces consumer confidence.	[6]	One mark for each correct reason identified, up to a maximum of three reasons, plus a further one mark for each of three explanations.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
5			**Comment on whether the relationship between unemployment and the budget balance shown in Fig.1 is the one economists would expect.** **Application – Up to two marks** 1 mark for Fig.1 shows that, at the start of the period, the unemployment rate is unchanged, whilst the budget surplus increases. 1 mark for after 2007 as unemployment rises, the budget moves into an increasing deficit/over the whole period as unemployment rises the budget moves into a deficit. 1 mark for as unemployment increases the budget moves into a deficit/moves from surplus to deficit **Analysis – Up to two marks** 2 marks for analysing the expected relationship, ie rising unemployment would be expected to increase government spending whilst reducing tax revenue. 1 mark for analysing the effect on only government spending or tax revenue. **Comment – Up to two marks** 1 mark for judging that the data at the beginning of the period does not match the expected relationship. 1 mark for noting that this suggests there are other influences on the budget balance. 1 mark for judging that the data at the end of the period/over the whole period matches the expected relationship.	[6]	Must refer to surplus/deficit. Not sufficient to refer to increase/decrease. Note – a candidate cannot access the comment (evaluation) marks without any analytical underpinning.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
6	(a)		**Describe how tariffs imposed by foreign governments may make it difficult to sell its exports.** Up to three marks 1 mark for tariffs are a tax on imports/import duties 1 mark for tariffs are likely to raise the price 1 mark for a higher price may reduce the price competitiveness of the country's exports 1 mark for it will be difficult if demand is elastic/depends on PED. Maximum of 3 marks	[3]	Accept a diagram showing how a tariff may cause a rise in price for two marks. Allow tariffs are a tax on exports.
6	(b)		**Using information in the case study, calculate the value of Ireland's exports in 2007.** Up to two marks 2 marks for £144 billion. 1 mark for correct working ie 4/5 x £180 billion/£144/£144 thousand/£144 million.	[2]	
6	(c)		**Comment on whether a depreciation in its exchange rate is likely to improve a country's trade in goods balance.** **Knowledge and understanding – For one mark** 1 mark for an awareness that a depreciation is a fall in the exchange rate. **Analysis – Up to two marks** 1 mark for a depreciation will lower export prices and raise import prices. 1 mark for demand for exports should rise and demand for imports should fall. **Or:** 1 mark for a depreciation will lower export prices and so raise demand for exports.	[7]	Note: a candidate cannot access the comment (evaluation) marks without any analytical underpinning. Accept diagrammatic representation of a depreciation for knowledge and understanding mark.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			1 mark for a depreciation will raise import prices and so lower demand for imports. **Comment– Up to four marks** Up to 4 marks for evaluating the extent to which a depreciation will improve/not improve a country's trade in goods balance. It will depend on eg: • the extent to which the currency depreciates • what happens to the quality of exports and imports • what happens to incomes at home and abroad • what happens to trade restrictions abroad • the price elasticity of demand for exports and imports • how much costs of production are increased by the higher price of imported raw materials.		Up to 3 marks for one evaluative point well made e.g. if there is a recession in the country's main trading partners with rising unemployment, incomes will be falling and as a result foreigners may be buying less of all products including imports. Do **not** expect the Marshall-Lerner condition, but reward if seen.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
7			**Discuss the effectiveness of reducing government spending in order to lower demand-pull inflation.** This question requires a discussion of the possible effectiveness of a reduction in government spending on lowering demand-pull inflation. A reduction in government spending may reduce aggregate demand/the growth of aggregate demand. Lower aggregate demand/slower growth of aggregate demand may reduce inflation. Answers should recognise that the impact of a cut in government spending will depend on a number of factors. For example, lower government spending may not be a long-term solution to reducing inflation, it may be more effective if the economy is operating at full capacity and it may lead to cost-push inflation. Answers may also discuss the difficulty of deciding on the cause of inflation, the difficulty of cutting some forms of government spending and may discuss the adverse effects of such a measure. **L4 For a discussion of the effectiveness of reducing government spending to lower demand-pull inflation. [13 – 18]** Answers should evaluate the possible effectiveness of reducing government spending to lower inflation. Examples of possible L4 answers: • In practice, it can be difficult to reduce some forms of government spending, eg on education and health care. • The measure is more likely to be effective if the economy is operating at full capacity. • The effectiveness will be influenced by the size of the multiplier. The larger the multiplier, the less	**[18]**	Note evaluation marks can only be awarded if there is underlying analysis. To gain 18 marks a candidate needs to have two strong evaluative points or one strong and two reasonable. To gain 17 marks a candidate needs to have at least one strong evaluative point and one reasonable point. To gain 16 marks a candidate needs to have one strong evaluative point and one brief evaluative point or two reasonable evaluative points. To gain 15 marks a candidate needs to have one strong evaluative point or one reasonable evaluative point and one brief evaluative point. To gain 14 marks a candidate needs to have one reasonable evaluative point or two brief evaluative points. To gain 13 marks a candidate needs to have one brief evaluative point. Note: do not credit – it will not be effective if operating on horizontal part of AS curve – demand-pull inflation would not then be a problem!

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Question	Expected Answer	Mark	Rationale/Additional Guidance
	government spending will have to be cut to achieve a given reduction in inflation. • A reduction in government spending on e.g., training infrastructure may increase firms' costs of production and so contribute to cost-push inflation. • Reducing government spending may not reduce aggregate demand, if other components of aggregate demand fall, or if taxation is reduced. • In the longer term, supply-side policies may be more effective in avoiding inflation, whilst allowing the economy to grow. • Monetary policy (interest rate increase) or increasing income tax may be more effective by directly influencing C + I which are larger components of AD. • Reducing government spending may have an adverse effect on the macroeconomic objectives of low unemployment and economic growth. For 16 – 18 marks, a discussion must have some depth to the discussion on the factors influencing the effectiveness of the policy measure. For 13 – 15 marks, a discussion which does evaluate but which lacks some depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any errors of spelling, punctuation and grammar.		Note: no evaluative marks for just stating that another policy would be more effective and analysing how it would work – must bring out **why** it might be more effective.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			L3 For an analysis of the effectiveness of reducing government spending to lower demand-pull inflation. [9 – 12] Answers should analyse how a reduction in government spending may lower demand-pull inflation. Examples of L3 answers: • Government spending is a component of AD and so lower government spending will reduce AD. • A reduction in government spending is deflationary fiscal policy which may be designed to reduce demand-pull inflation. • Lower AD may reduce demand-pull inflation if the economy is operating at or close to full employment/maximum capacity. • The inclusion of an AD/AS diagram showing how a shift to the left of the AD curve may reduce inflationary pressure/the price level. • Lower government spending on benefits may increase incentives and so raise output and put downward pressure on prices. • Lower government spending on benefits may reduce consumer expenditure and so lower AD. For 11+ marks there should be some depth of analysis covering three or four links between the policy and inflation. For 9 – 10 marks there may be some lack of depth, for instance, covering just 1 or 2 links. Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar and these are unlikely to be intrusive or obscure meaning.		<u>With diagram</u> 12 marks for a reasonably accurate macro diagram, plus analysis of the relationship between government spending and aggregate demand and the effect on demand-pull inflation. 11 marks for a reasonably accurate macro diagram, plus either the relationship between government spending and AD analysed or the effect on demand-pull inflation analysed. 10 marks for a reasonably accurate macro diagram, plus identification that AD may fall and the price level/inflation may be reduced. 9 marks for a reasonably accurate macro diagram. N.B no marks for a largely micro diagram. <u>Without diagram</u> 12 marks for good analysis of the relationship between government spending and aggregate demand, the impact on AD and macroeconomic equilibrium and the effect on demand-pull inflation. 11 marks for good analysis of two of the following: the relationship between government spending and aggregate demand, the impact on aggregate demand and macroeconomic equilibrium, the effect on demand-pull inflation. 10 marks for basic analysis of two of the following: the relationship between government spending and aggregate demand, the impact on aggregate demand and macroeconomic equilibrium, the effect on demand-pull inflation. 9 marks for basic analysis of one of the following: the relationship between government spending and AD, the impact on AD and macroeconomic equilibrium, the effect on demand-pull inflation.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			L2 For an application of knowledge and understanding of how a reduction in government spending may lower demand-pull inflation. [5 – 8] Answers should recognise that demand-pull inflation is linked to an increase in AD, lower government spending may reduce AD and lower AD may reduce the price level/demand-pull inflation. Examples of possible L2 answers: • Demand-pull inflation is caused by an increase in AD. • Lower government spending means less demand from the government. • Lower government spending may reduce AD/AS. • Lower AD may reduce the price level/demand-pull inflation. • Lower government spending may increase incentives to work/invest. • Government Spending is a component of AD. For 7 – 8 marks, the answer should recognise three or four links between government spending and demand-pull inflation. For 5 – 6 marks, the answer should recognise two links/one link between government spending and demand-pull inflation. Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar of which may be noticeable and intrusive.		To gain 8 marks a candidate needs to identify 4 links or at least 2 links with a hint of explanation on at least one of these. To gain 7 marks a candidate needs to identify 3 links or at least 1 link with a hint of explanation on this. To gain 6 marks a candidate needs to identify 2 links. To gain 5 marks a candidate needs to identify a link.

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Question			Expected Answer	Mark	Rationale/Additional Guidance
			L1 For knowledge and understanding of aggregate demand and demand-pull inflation. [1 – 4] These answers will show some awareness of the terms. Examples of L1 answers: • AD is the total demand for products produced in an economy over a given time period. • AD consists of C + I + G + (X – M) • Inflation is a sustained rise in the general price level. • Inflation is a rise in prices • Idea of general fall in spending. • Lower spending may lead to lower prices. For 3 – 4 marks there will be both knowledge and understanding of both the nature of AD and demand-pull inflation. For 1 – 2 marks there will be knowledge and understanding of either AD or demand-pull inflation. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.		
			Total	**[60]**	

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ADVANCED SUBSIDIARY GCE
ECONOMICS
The National and International Economy

F582

Candidates answer on the Question Paper

OCR Supplied Materials:
None

Other Materials Required:
- Calculators may be used.

Monday 7 June 2010
Afternoon

Duration: 1 hour 30 minutes

OCE/13297

F582

Candidate Forename		Candidate Surname	

Centre Number						Candidate Number				

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INFORMATION FOR CANDIDATES

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- The total number of marks for this paper is **60**.
- You will be assessed on the quality of written communication in question 7.
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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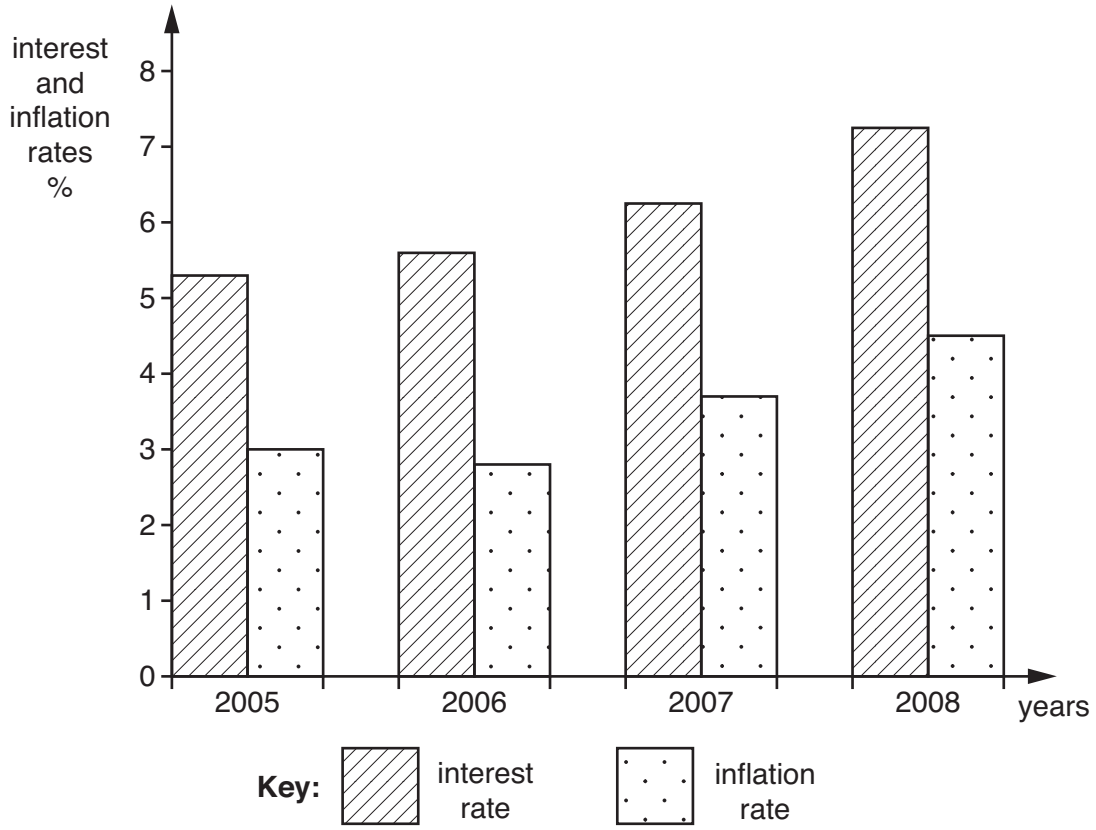
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2

Australian economy sets new records

2008 witnessed a number of significant changes in the Australian economy. These affected the government's macroeconomic policy objectives. The country's annual inflation rate reached 4.5%, the highest since 1995 and significantly above the country's central bank's 2–3% target range. In response the central bank, known as the Reserve Bank of Australia, raised its interest rate to a 12 year high of 7.25%. Fig. 1 shows the interest rate and inflation rate in Australia between 2005 and 2008.

Fig. 1 Australian interest and inflation rates 2005–2008



It was thought that the central bank might have to raise the rate of interest again in 2009. This was despite an awareness that such a tightening of monetary policy might increase unemployment.

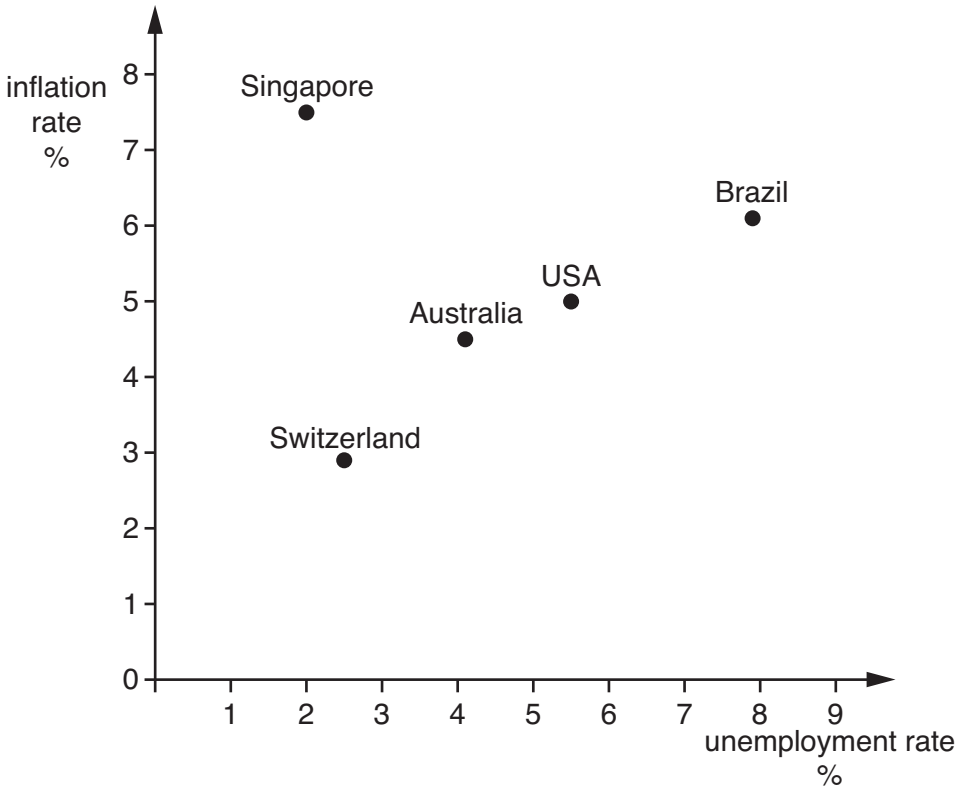
Unlike many other countries which in 2008 were suffering from inflationary pressure resulting from higher energy and food prices, Australia's inflationary pressure was coming from its economic boom. The country's aggregate demand was increasing, driven by rising consumption and investment, but other components were working in the opposite direction. The government had a budget surplus but was planning to cut rates of income tax in the next two years. The external account was negative, with the balance of trade in deficit to the tune of A$21.4bn. This was partly due to the strength of the Australian dollar (A$) which stood at a 24 year high in 2008. Despite this, the economy was operating at virtually full capacity and the 4.1% unemployment figure was a 34 year low.

Whilst high inflation can have a number of economic costs, it can also be associated with low unemployment. Fig. 2 shows the relationship between the unemployment rate and the inflation rate in a number of countries in 2008.

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Fig. 2 The relationship between the unemployment rate and inflation rate in selected countries in 2008



The Australian government, like other governments, seeks to promote economic growth because of the benefits that can be gained. The Australian growth rate in 2008 was 2.7%. In the short run, economic growth may be stimulated by demand-side policies; but in the long run, supply-side policies may be more significant.

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Answer **all** questions.

1 Identify **three** government macroeconomic policy objectives.

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2 **(a)** Using Fig. 1, describe the changes in Australia's interest rate and inflation rate between 2005 and 2008.

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(b) Comment on the effectiveness of increasing the rate of interest to reduce inflation.

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3 Explain how a high value currency can result in a country having a trade deficit.

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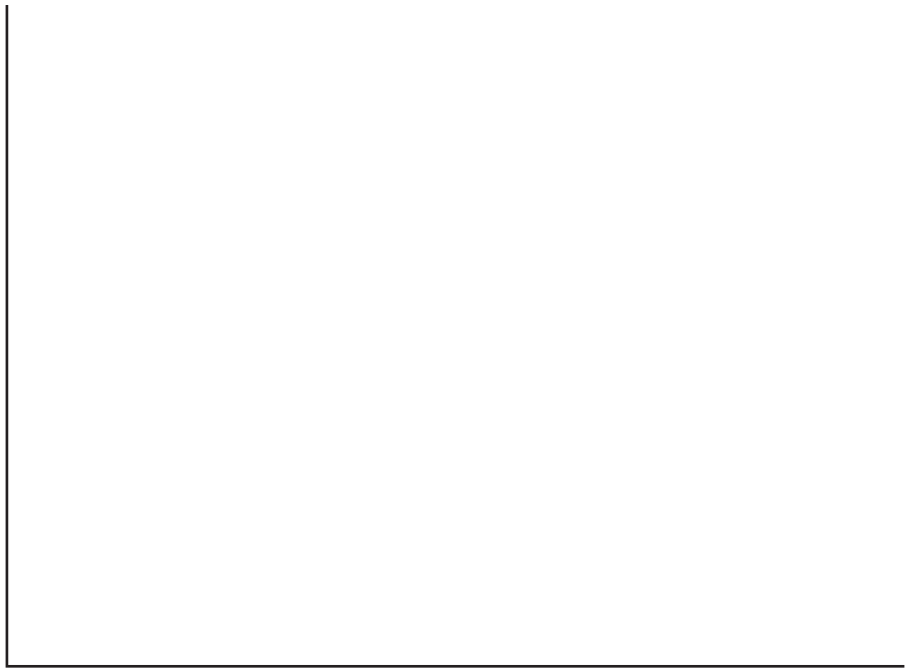
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4 **(a)** Using the information from the case study (lines 11–17), draw an aggregate demand and aggregate supply diagram to illustrate the state of the Australian economy in 2008.



[4]

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(b) Analyse how the proposed change in Australia's income tax rates would be expected to influence aggregate demand.

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5 **(a)** State and explain **two** economic costs of inflation.

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(b) Comment on whether Fig. 2 supports the view that high inflation is associated with low unemployment.

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6 State and explain **two** supply-side policies.

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7 Discuss the extent to which economic growth may benefit an economy. **[18]**

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[18]

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GCE

Economics

Advanced GCE **F582**

The National and International Economy

Mark Scheme for June 2010

Oxford Cambridge and RSA Examinations

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Subject-specific Instructions

1 The paper is to be marked to AS standard.

2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.

3 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.

4 The Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.

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Question	Syllabus Ref	Expected Answer	Mark	Rationale
1		**Identify <u>three</u> government macroeconomic policy objectives.** 1 mark each for each of three objectives e.g. low inflation, full employment, economic growth, balance of payments equilibrium, income redistribution and economic stability.	[3]	Also accept other macroeconomic versions e.g. increase in living standards, price stability, low unemployment/high employment, current account balance/balance of payments surplus/current account surplus, or reducing current account deficit. Also allow reduced unemployment and reduced inflation.
2 (a)		**Using Fig. 1, describe the changes in Australia's interest rate and inflation rate between 2005 and 2008.** 1 mark for the interest rate rose throughout the period. 1 mark for the inflation rate rose over the period. 1 mark for the inflation rate fell in 2006/inflation rate fluctuated more than the interest rate. 1 mark for the interest rate continued to be higher than the inflation rate throughout the period. 1 mark for interest rate increased by more each year. 1 mark for real interest rate fluctuates over the period. 1 mark for real interest rate remains positive. Maximum of 3 marks.	[3]	Award 1 mark only for a year by year description – even if it includes inflation rate fell in 2006. If stating whether inflation rate or interest rate increased by more over the period they have to state if referring to % increase (inflation rate) or % point increase (interest rate).
(b)		**Comment on the effectiveness of increasing the rate of interest to reduce inflation.** Up to 3 marks for analysing how an increase in the rate of interest may reduce inflation: • It will increase the cost of borrowing • It will increase the reward for saving • It will reduce consumer expenditure • It will reduce investment • It will reduce aggregate demand. • Lower aggregate demand will put pressure on producers to cut	[6]	Note – a candidate cannot access the evaluation marks without any analytical underpinning. No marks if discussing the effectiveness of reducing the rate of interest.

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		prices/restrict price rises. Up to 3 marks for evaluating whether it will reduce inflation e.g.: • It will be influenced by how much the rate of interest is increased • Aggregate demand may continue to rise if consumers and producers are optimistic about the future • It will raise firms' costs of production which may contribute towards cost-push inflation.		

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Question	Syllabus Ref	Expected Answer	Mark	Rationale
3		**Explain how a high value currency can result in a country having a trade deficit.** 1 mark for a high value of the currency will mean export prices are high. 1 mark for high export prices may discourage demand. 1 mark for a high value of the currency will result in import prices being low. 1 mark for low import prices may increase demand. 1 mark for low export revenue and high import expenditure can result in a trade deficit. Up to a maximum of 4 points.	[4]	
4 (a)		**Using the information from the case study (lines 11 – 17), draw an aggregate demand and aggregate supply diagram to illustrate the state of the Australian economy in 2008.** 1 mark for axes correctly identified. 1 mark for aggregate demand curve correctly labelled. 1 mark for aggregate supply curve correctly labelled. 1 mark for AD curve intersecting AS curve at or close to the vertical part of the AS curve/AD shifting to the right.	[4]	Rationale: labels: vertical axis, accept price level, general price level, CPI, RPI, RPIX but not inflation rate. Horizontal axis, accept real GDP, national output, real national income, country's output and aggregate output.

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Question	Syllabus Ref	Expected Answer	Mark	Rationale
4 (b)		**Analyse how the proposed change in Australia's income tax rates would be expected to influence aggregate demand.** Application: 1 mark for recognising that the proposed change is the cut in income tax. 1 mark for a cut in income tax will increase disposable income/ability to spend. Analysis: 1 mark for a rise in disposable income will be likely to increase consumption. 1 mark for higher consumption may stimulate investment. 1 mark for consumption and/or investment is a component of aggregate demand. 1 mark for aggregate demand would be likely to increase. 1 mark for some extra income will leak out of the economy in the forms of savings and/or imports. 1 mark for lower tax rates may affect government spending. Maximum of 6 marks.	[6]	For components of AD accept AD=C+I+G+(X-M). Note – No marks for evaluation.
5 (a)		**State and explain two economic costs of inflation.** 1 for identification, 1 mark for some explanation and 1 mark for a further explanation x2. Possible examples include: • inflationary noise (1) as inflation can distort price signals (1) which can result in consumers and firms making inefficient choices (1) • menu costs (1) as firms will have to change their prices in catalogues etc more frequently (1) and this will raise firms' costs (1) • Loss of international competitiveness (1) which will result in	[6]	Lower consumer spending, unemployment, rising interest rates and depreciation of the value of the pound (£) will only gain 1 mark unless well established.

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		exports becoming relatively more expensive if the country's inflation rate exceeds that of its competitors (1) and this can lead to a current account deficit (1).		

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Question	Syllabus Ref	Expected Answer	Mark	Rationale
5 (b)		**Comment on whether Fig. 2 supports the view that high inflation is associated with low unemployment.** Analysis: Up to 3 marks for analysing information 1 mark for Singapore does support this view 1 mark for Switzerland does not 1 mark for Brazil does not 1 mark for Australia and/or the USA's relationships are ambiguous. 1 mark for positive correlation between inflation and unemployment/the higher a country's inflation rate the higher its unemployment rate. 1 mark for Singapore is an exception to the positive correlation. Note a maximum of 3 marks for analysis. Evaluation: Up to 3 marks for evaluation 1 mark for generally the information does not support the view. 1 mark for only a limited number of countries are shown. 1 mark for one year's figures is insufficient to draw a conclusion. 1 mark for no source is given for the information shown. 1 mark for inflation/unemployment may be due to other factors. 1 mark for commenting on the fact that countries may use different measures for calculating inflation and/or unemployment.	**[6]**	Note – a candidate cannot access the evaluation marks without any analytical underpinning.
6		**State and explain two supply-side policies.** 1 mark each for each of two supply-side policies identified e.g. education, training, privatisation, deregulation, cut in state benefits, cut in income tax. 1 mark each for each of two explanations e.g.: increased/improved education is designed to raise labour productivity; privatisation involves selling off state owned concerns to the private sector/is designed to increase efficiency/competition.	**[4]**	A candidate must identify a policy e.g. nothing for advances in technology in isolation from a policy. Accept a cut in interest rates but only if linked to an increase in investment.

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Question	Syllabus Ref	Expected Answer	Mark	Rationale
7		**Discuss the extent to which economic growth may benefit an economy.** This question requires a discussion of the possible effects of economic growth. *Economic growth will result in an increase in the output of goods and services, raise tax revenue, may lower unemployment and so reduce government spending on unemployment related benefits. There may also be disadvantages of economic growth including an opportunity cost in the short run, pollution, depletion of non-renewable resources and stress. Answers should recognise that the consequences of economic growth will depend on the nature of the growth, how it is achieved and how the benefits are distributed.* L4 For a discussion of the consequences of economic growth. (13-18) Answers should evaluate the possible effects of economic growth. Examples of possible L4 answers: • The effects of economic growth will be influenced by the type of extra products produced. For example, if more consumer goods and services are made, living standards will rise now. If more capital goods are made, it may take a little while for living standards to increase. If more weapons are made, people may not feel better off • For living standards to rise, real GDP has to increase by more than population, so real GDP per head increases • If income is unevenly distributed, only a small proportion of the population may benefit for economic growth • The more sustainable economic growth is, the more beneficial it is likely to be. Avoiding depleting non-renewable resources and pollution, is more likely to enable economic growth to continue for future generations	[18]	**Note evaluation marks can only be awarded if there is underlying analysis.** To gain 18 marks a candidate needs to have 2 strong evaluative points **or** one strong and two reasonable. To gain 17 marks a candidate needs to have at least 1 strong evaluative point **and** one reasonable point. To gain 16 marks a candidate needs to have one strong evaluative point and one brief evaluative point **or** two reasonable evaluative points. To gain 15 marks a candidate needs to have one strong evaluative point **or** one reasonable evaluative point and one brief evaluative point. To gain 14 marks a candidate needs to have one reasonable evaluative point **or** two brief evaluative points. To gain 13 marks a candidate needs to have one brief evaluative point.

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				Note if candidate is taking a two-sided view (underpinned by analysis on **both** costs and benefits) this is treated as brief evaluation and capped at 13 marks.

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Question	Syllabus Ref	Expected Answer	Mark	Rationale
7 cont'd		• Outcome will depend on the nature of economic growth i.e. whether it is short or long run. • Economic growth resulting from a shift of the aggregate demand curve to the right may be associated with inflation whilst potential economic growth resulting from a shift to the right of the aggregate supply curve may reduce inflationary pressure • Economic growth caused by shifts of both the AD and AS curves will last for longer than economic growth resulting from just a shift in one curve • Economic growth may have both costs and benefits for economic growth to be beneficial the benefits must outweigh the costs. As economic growth is a macro economic objective for most governments this suggests most countries regard economic growth as beneficial. For 16+ marks, the discussion must have some depth and width, bringing out the factors that influence the extent to which economic growth may benefit an economy. For 13-15 marks, a discussion that recognises in less depth what factors influence the extent to which economic growth may benefit an economy. Complex ideas may have been expressed clearly and fluently, using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate terminology. There may be few, if any, errors of spelling, punctuation and grammar. L3 For an analysis of the consequences of economic growth. (9-12) Answers should analyse either the benefits or costs of economic growth. Examples of possible L3 answers: • Economic growth can raise living standards by producing more goods and services and increasing employment opportunities • If an economy is producing at full capacity, there will be an opportunity cost involved in achieving economic growth. Resources will have to be shifted from producing consumer		To gain 12 marks a candidate needs to have depth of analysis on at least 3 consequences. To gain 11 marks a candidate needs to have analysis on 3 consequences **and** some depth on 2 of the consequences.

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		goods to producing capital goods. For 11+ marks there must be some depth and width of analysis covering at least three costs or benefits.		To gain 10 marks a candidate needs to have some analysis on 2 consequences. To gain 9 marks a candidate needs to have some analysis on one consequence.

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Question	Syllabus Ref	Expected Answer	Mark	Rationale
7 cont'd		For 9-10 marks there may be some lack of depth or width Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning. L2 For an application of knowledge and understanding of the consequences of economic growth. (5-8) Answers should recognise some of the consequences of economic growth. Examples of possible L2 answers: • Economic growth can cause pollution • Economic growth can increase living standards • Economic growth can reduce government spending on state benefits. For 7+ marks, the answer should recognise three or more consequences. For 5-6 marks, answers may recognise one or two consequences. Some simple ideas have been expressed in an appropriate context. There are likely to be errors of spelling, punctuation and grammar of which some may be noticeable and intrusive. L1 For knowledge and understanding of aggregate demand. (1-4) These answers will show some awareness of the term. Examples of L1 answers: • Economic growth is an increase in real GDP • Economic growth is an increase in productive capacity • Economic growth is a government macroeconomic policy objective • Economic growth is an increase in output.		To gain 8 marks a candidate needs to identify 3 consequences **and** a hint of explanation on at least 1 of these. To gain 7 marks a candidate needs to identify 3 consequences **or** a hint of explanation on at least 1 of these. To gain 6 marks a candidate needs to identify 2 consequences. To gain 5 marks a candidate needs to identify 1 consequence.

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Question	Syllabus Ref	Expected Answer	Mark	Rationale
7 cont'd		For 3+ marks there will be reference to real GDP or productive capacity. For 1-2 marks, the answer will show knowledge and understanding of an increase in output. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.		

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Assessment Grid

Question	AO1	AO2	AO3	AO4	Total
1	3				3
2 (a)		3			3
2 (b)			3	3	6
3	2	2			4
4 (a)	3	1			4
4 (b)		2	4		6
5 (a)	3	3			6
5 (b)			3	3	6
6	2	2			4
7	4	4	4	6	18
Totals	17	17	14	12	60

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ADVANCED SUBSIDIARY GCE
ECONOMICS
The National and International Economy

F582

Candidates answer on the Question Paper

OCR Supplied Materials:
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Other Materials Required:
- Calculators may be used.

Thursday 21 January 2010
Morning

Duration: 1 hour 30 minutes

OCE/13293

F582

Candidate Forename		Candidate Surname	

Centre Number						Candidate Number				

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- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- The spaces should be sufficient for your answers but if you require more space use the lined pages at the end of this booklet and number your answers carefully.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets **[ ]** at the end of each question or part question.
- The total number of marks for this paper is **60**.
- You will be assessed on the quality of written communication in question 7.
- This document consists of **16** pages. Any blank pages are indicated.

A calculator may be used for this paper

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2

Will Dubai overtake Abu Dhabi?

Dubai is one of the seven emirates (states) that form the United Arab Emirates (UAE). Another is Abu Dhabi. All seven emirates share the same currency, the dirham. The dirham's exchange rate against the pound sterling has fluctuated in recent years.

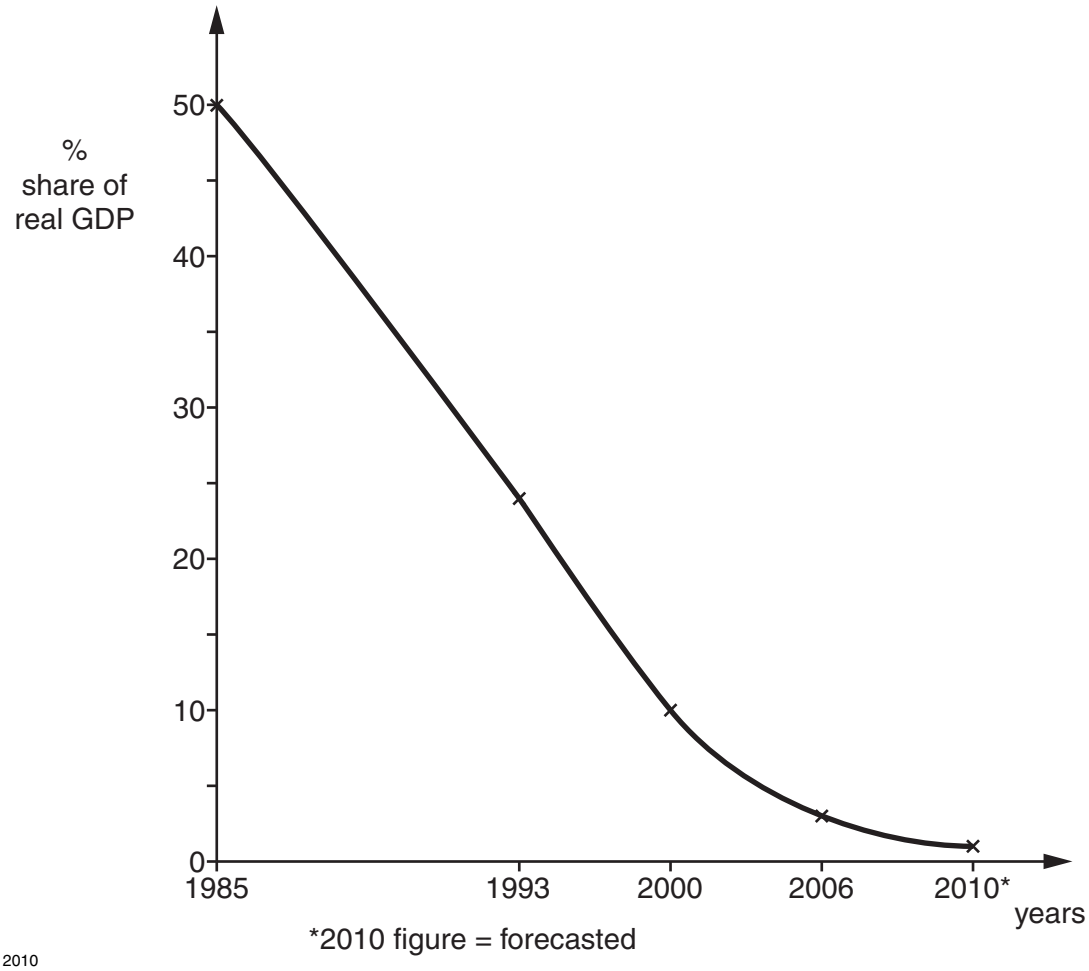
Whilst Abu Dhabi is the richest emirate, Dubai is catching up. Fig. 1 compares the economies of Abu Dhabi and Dubai. *5*

Fig.1 Selected economic indicators for Abu Dhabi and Dubai in 2007

Economic indicators	Abu Dhabi	Dubai
Annual economic growth rate	8.2%	11%
Real GDP	$160bn	$54bn
Contribution to UAE's real GDP	61%	24%
Population	1.4m	1.6m
Inflation rate	11.0%	11.2%
Trade surplus	$54bn	$30bn

Dubai's economy is changing. It is becoming more diversified. Fig. 2 shows the contribution of oil to Dubai's economy.

Fig. 2 Oil's contribution to the economy of Dubai



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Dubai is developing its business, financial and tourism sectors and experiencing a construction boom. A number of business-related cities have been built, including Health Care City and Media City. Dubailand is the world's largest theme park; and the world's tallest building, the Burj Dubai tower, will be completed in 2009. Investment is increasing at a relatively rapid rate, although consumer expenditure is still the highest component of Dubai's aggregate demand. The tendency of Dubai's citizens to spend a high proportion of their income leads to injections having a relatively large multiplier effect.

Dubai has a very open economy, trading with many countries throughout the world. Many protectionist measures have long since been removed and both imports and exports have increased. Most of the people living in Dubai are foreign workers and it is anticipated that the number of such immigrant workers will increase significantly in the next decade. Dubai's ruler, Sheikh Mohammed bin Rashid al-Maktoum, stated in 2007 that the country is planning to double its labour force to 1.7m by 2015.

Dubai currently has no income tax, corporation tax or VAT (sales) tax. Consumer expenditure and investment can, however, still be changed by altering the rate of interest.

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Answer **all** questions.

1 **(a)** Define the term 'exchange rate'.

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(b) Draw a demand and supply diagram to show how an exchange rate is determined by market forces.



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2 **(a)** Using the information in Fig. 1, comment on whether the performance of Abu Dhabi was better than that of Dubai in 2007.

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(b) Describe **two** difficulties in measuring real GDP.

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3 Using Fig. 2, describe the change in the contribution of oil to Dubai's economy between 1985 and 2010.

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4 **(a)** Using information from the case study, identify **one** injection and **one** leakage.

injection: .....

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leakage: .....

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(b) Define the term 'multiplier effect'.

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5 **(a)** State and explain **two** possible ways of reducing protectionism.

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(b) Comment on the effect that an increase in a country's exports will have on its level of employment.

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6 **(a)** Calculate, to the nearest whole number, the percentage of Dubai's population that was in the labour force in 2007.

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(b) Using an aggregate demand and aggregate supply diagram, analyse the effects of immigration on an economy.



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7 Discuss the extent to which a reduction in the rate of interest can be effective in increasing consumer expenditure and investment. **[18]**

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.... [18]

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GCE

Economics

Advanced GCE **A2 H461**

Advanced Subsidiary GCE **AS H061**

Mark Schemes for the Units

January 2010

HX61/MS/R/10J

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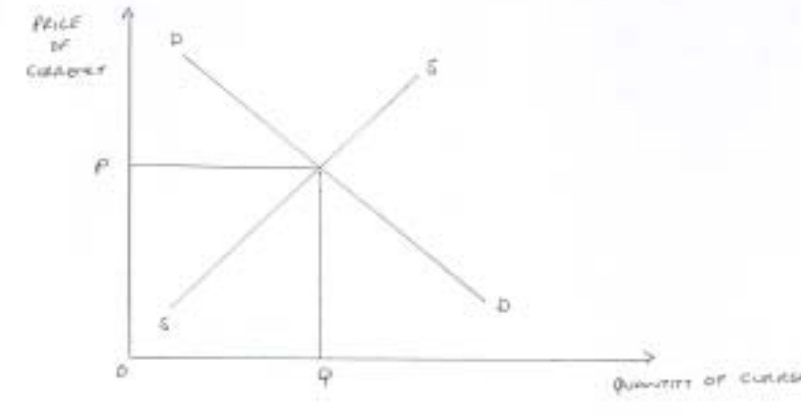
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F582 The National and International Economy

Question	Answer	Marks	Guidance
1 (a)	2 marks for the price of one currency in terms of another currency/currencies. 1 mark for price/value/worth of a currency/one currency compared to another currency/currencies. 1 mark for example.	2	£1 = $2 or equivalent would be awarded 1 mark as an example – not explicitly mentioning that it is the price of the currency. Nothing for just 'rate' of a currency.
1 (b)	 1 mark for demand curve correctly labelled. 1 mark for supply curve correctly labelled. 1 mark for equilibrium shown.	3	Accepting straight line demand and supply curves and curved demand and supply curves. The equilibrium can be shown by price and quantity lines (linked to P and Q or price and quantity on the axes) or by an explicitly indicated equilibrium point. An answer which shifts one of the curves can still get three marks if the curves are correctly labelled and an equilibrium is shown.

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Question	Answer	Marks	Guidance
2 (a)	Up to 3 marks for analysing data: • Abu Dhabi had a lower inflation rate • Abu Dhabi had a higher real GDP/larger contribution to UAE,s real GDP • Abu Dhabi had a higher real GDP per capita as real GDP is higher and population is lower • Abu Dhabi had a larger trade surplus. Up to 3 marks for evaluation: * Conclusion that most of the information supports the view that Abu Dhabi was performing better. • Dubai had a higher growth rate – this does not support the view. • Reference to other information needed eg the unemployment rate, other years' data. Maximum of 5 marks.	5	
2 (b)	1 mark for identification and 1 mark for description x 2 e.g. • risk of double counting (1) as using the output method, raw materials must not be counted twice (1) • need to exclude transfer payments (1) as only incomes earned in producing products must be included (1) • the existence of undeclared economic activity (1) may mean that real GDP figures understate the true level of the country's output (1) • the need to measure inflation accurately (1) as nominal (money) inflation has to be adjusted to get real GDP. (1) Maximum of 4 marks	4	Nothing for problems of interpreting real GDP as a measure of living standards e.g. real GDP may not be evenly distributed. 1 mark for recognising real GDP has to be adjusted for inflation.

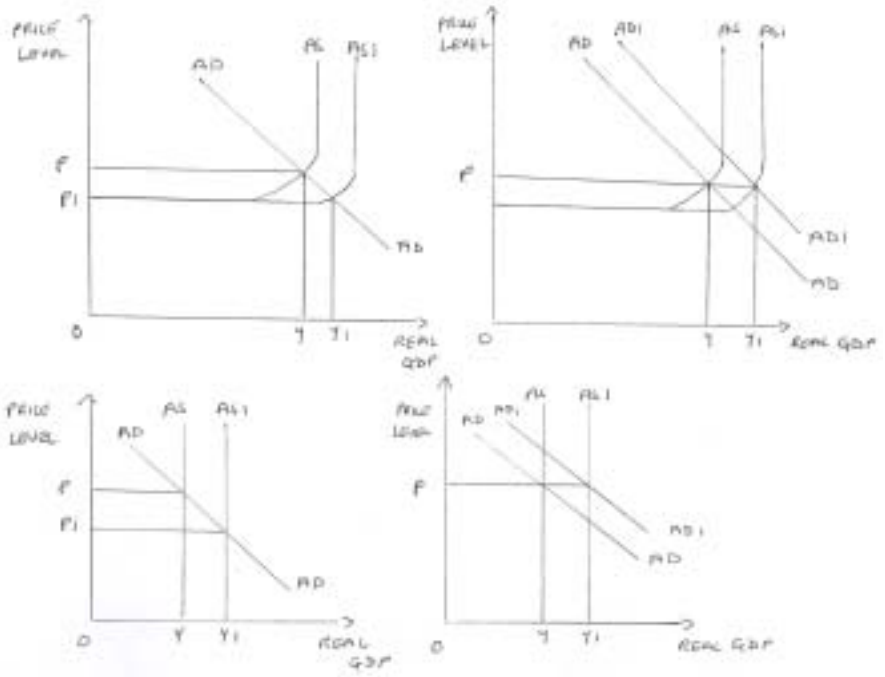
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Question	Answer	Marks	Guidance
3	Up to 2 marks: 1 mark for the contribution has fallen/diversified into other areas. 1 mark for it declined most rapidly at the start of the period/less rapidly at the end of the period. 1 mark for it declined by 49% points/98% over the period. 1 mark for at the start of the period it accounted for half of the country's output whereas by the end its contribution was expected to be minimal. 1 mark for recognising 2010 is only a forecasted figure but nothing just for reference to forecasted figure. Maximum of two marks.	2	Nothing for it declined by 49%.
4 (a)	1 mark for exports or investment as an injection. 1 mark for imports or tax or foreign workers sending money home as a leakage.	2	
4 (b)	2 marks for the process by which any change in a component of AD results in a greater final change in real GDP. (Also accept the formula 1/mpw for 2 marks, but remember this is not required at this level.) 1 mark for idea that a change in spending has a knock on effect/affected by injections.	2	Also accept any change in an injection/leakage results in a greater final change in real GDP/AD and change in income/change in injection for 2 marks

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Question	Answer	Marks	Guidance
5 (a)	1 mark for each of two ways stated eg reduction in/abolition of tariffs, increase in quota levels or abolition of quotas, removal of embargoes, removal of subsidies, joining an international organisation or trade bloc that promotes free trade. Plus up to 2 marks each for each explanation of how the ways would reduce protectionism, eg • a reduction in tariffs would lower the price of imports on the domestic market. (1) This would make them more price competitive relative to home produced goods. +(1) • increase in quota levels would allow more imports into the country. (1) If these imports are cheaper or better quality, demand for domestically produced products is likely to fall. (1)	6	Each of these examples need a clear exemplification of the second explanatory mark. Allow one explanatory mark in each case for explaining the nature of the protectionist measure e.g. explaining a tariff. Nothing for retaliation to force countries to reduce protectionism. Note if no marks are given for one part but two ways are given in the second part, they can be rewarded as two.
5 (b)	Up to 3 marks for analysing the effects eg: • exports are a component of aggregate demand./injection into the circular flow • an increase in exports will raise aggregate demand. • higher aggregate demand will encourage firms to expand output. • to raise production, firms may employ more workers/increases employment. Up to 3 marks for evaluating effects eg: • the impact on employment will depend on whether exports rise by more than imports. • another component of aggregate demand may fall. • higher output could result from improved productivity or capital investment and so employment may not rise. • if the economy is operating at full employment, it may not be possible to increase employment. • final effect one employment may be greater than the initial impact due to the multiplier effect.	6	3 evaluative marks can be gained for one point one well made but: 1 evaluative mark maximum for ‘will depend on how much exports increase by’. Maximum 6 marks

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Question	Answer	Marks	Guidance
6 (a)	2 marks for 53% (0.85m/1.6m x 100 = 53.125%) 1 mark for calculating that the size of Dubai's labour force in 2007 was 0.85m or for the correct method but inaccuracy in the answer.	2	
6 (b)	Accurate diagram = up to a maximum of 5 marks. 1 mark for axes correctly labelled (ie macro labels). 1 mark for AD and AS curves are correctly labelled. 1 mark for shift of AS curve to the right. 1 mark for shift of AD curve to the right. 1 mark for original equilibrium. 1 mark for new equilibrium. 	8	Labels: for vertical axis, accept general price level, price level, CPI, RPI or RPIX but not inflation; for horizontal axis, accept real GDP, national output, country's output and aggregate output. Equilibriums to be shown by lines to price level and real GDP and indicated by P and Y.

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Question	Answer	Marks	Guidance
	Accurate explanation = up to a maximum of 5 marks. 1 mark for recognising that a higher labour force will increase aggregate supply. 2 marks for explaining that a higher labour force will increase aggregate supply by raising productive capacity. 1 mark for noting that if the extra workers gain employment, AD will increase/ higher population will increase AD. 1 mark for noting it will increase potential economic growth. 1 mark for noting it may increase actual economic growth/higher GDP 1 mark for explaining the effect on the price level. 1 mark for explaining that the effect on the price level will depend on the relative shift of the AS curve and AD curve. 1 mark for explaining effect will depend on whether there is net immigration/scale of net immigration/age of immigrants. Up to 2 marks for explanation that the effects on the price level and output will depend on the initial relationship between AD and AS. Maximum of 8 marks.		

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Question	Answer	Marks	Guidance
7	This question requires a discussion of how a reduction in the rate of interest may affect consumer expenditure and investment. A reduction in the rate of interest will make it cheaper for consumers and firms to borrow and reduce the return from saving. It will also mean that consumers and firms will have to pay less on past loans. Answers should recognise that the effect will depend on a number of factors and that there are other influences on consumer expenditure and investment. **Level 4 (13 – 18 marks)** For a discussion of the extent to which a reduction in the rate of interest can be effective in increasing consumer expenditure and investment. Answers should evaluate the extent to which a reduction in the rate of interest may affect consumer expenditure and investment. Examples of L4 answers: • Changes in the current and expected profit level may have more impact on investment than changes in the rate of interest. Firms will not want to invest even if the rate of interest falls very low if it is thought that investment will not be profitable. • If consumer confidence is low, a fall in the rate of interest may not encourage higher consumer expenditure. • If business confidence is low, firms are unlikely to invest. • Consumer expenditure and investment may not change if it is thought that the lower interest rate will not last. • Borrowers will gain from a lower interest rate whilst lenders will lose. Such a redistribution of income may still lead to higher consumer expenditure and investment as borrowers tend to spend more than lenders. • If the rate is already very low, a cut may have little impact. • A large reduction is likely to have more of an impact than a small cut .	18	Evaluation must be underpinned by relevant analysis. Note: if a candidate ignores investment or shows a confused understanding of investment, the maximum mark they can gain is 13 (10 for strong analysis on C and a maximum of 3 on evaluation). Note: if a candidate discusses how an increase in the rate of interest might reduce consumer expenditure and investment, award up to a maximum of 8 based on the quality of the answer. For 18 marks, a candidate must have two good evaluative arguments, or three reasonable evaluative points, or one good evaluative argument, one reasonable evaluative argument and one brief evaluative argument. For 16 marks, a candidate must have one good evaluative argument, plus one brief evaluative argument or two reasonable evaluative arguments.

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Question	Answer	Marks	Guidance
7 cont.	For 16+ marks, the discussion must have some depth to the factors influencing the effects and their relative likelihood. For 13 – 15 marks, a discussion that does evaluate but which lacks depth or is relatively narrowly focused. Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any errors of spelling, punctuation and grammar. **Level 3 (9 – 12 marks)** For an analysis of a reduction in the rate of interest and how it might increase consumer expenditure and investment. Answers should analyse the link between a change in the rate of interest and consumer expenditure and investment. Examples of L3 answers: • A cut in the rate of interest may increase investment as the opportunity cost of investing will fall, it will be cheaper to borrow to invest and firms may anticipate higher consumer expenditure. • A lower interest rate may increase consumer expenditure as it will be cheaper to borrow, saving will be less rewarding and borrowers' discretionary income will be higher. For 11+ marks there should be some depth of analysis on both consumer expenditure and investment. For 9 –10 marks the impact on only consumer expenditure or only on investment may be analysed. Relatively straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though some may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure in meaning. **Level 2 (5 – 8 marks)** For an application of knowledge and understanding of how a reduction in the rate of interest may affect		For 12 marks there should be both some depth and width of analysis on both consumer expenditure and investment. For 11 marks there should be some depth and width of analysis on either consumer expenditure or investment and some depth or width on the other. For 10 marks there should be some depth and width on either consumer expenditure or investment . For 9 marks there should be some depth or width on either consumer expenditure or investment. (Width = two reasons why C/I may increase.

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Question	Answer	Marks	Guidance
7 cont.	consumer expenditure and investment. Answers should recognise how and briefly why a lower interest rate would be likely to affect consumer expenditure and investment. Examples of L2 answers: • A reduction in the rate of interest would be likely to encourage consumers to spend more as less return from saving • A reduction in the rate of interest would be expected to increase investment as cheaper to invest.. For 7+ marks, the answer should recognise the effect of a lower interest rate on both consumer expenditure and investment. For 5 – 6 marks, answers may recognise the effect of a lower interest rate on either consumer expenditure or investment. Some simple ideas have been expressed in appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive. **Level 1 (1 – 4 marks)** For knowledge and understanding of consumer expenditure and investment. These answers will show some awareness of the terms. Examples of L1 answers: • Consumer expenditure is spending by households on consumer goods and services. • Consumer expenditure is a component of aggregate demand. • Investment is spending by firms on capital goods. • Investment is a component of aggregate demand. For 3+ marks, there will be both knowledge and understanding of both consumer expenditure and investment. For 1 – 2 marks, the answer will show knowledge and understanding of either consumer expenditure or investment. Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.		For 8 marks the answer should identify consumer expenditure would be expected to increase as well as one reason why and investment would be expected to increase as well as one reason why. For 7 marks the answer should identify that both C and I should increase and identify one reason why either may increase. For 6 marks the answer should identify that both C and I should increase. For 5 marks the answer should identify that either C or I should increase.

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