F582 The National and International Economy

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, ie 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.

A set number of marks for written communication is not a requirement. However, where a level of response mark scheme is used, the following general criteria for assessing the quality of written communication will apply. This criteria is integrated within the more specific levels of response shown in the individual mark schemes for each appropriate question.

<u>Level 4</u>

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 specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

<u>Levels 2 and 3</u>

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

<u>Level 1</u>

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

Scheme   **January 2009**

Question	Syllabus Ref	Expected Answer	Mark	Rationale
1		**Define the term 'Gross Domestic Product'. (line 2)**	**[2]**	
		2 marks for total/value output produced in an economy/country. 2 marks for total output produced in a given time period. 2 marks for total amount spent on the products produced by an economy. 1 mark for total output/income/expenditure. 1 mark for what is produced/earned in a country/economy. 1 mark for in a given time period.		Nothing for the distinction between real and nominal amount an economy could produce/economic growth. Nothing for methods of measurement. Allow 2 marks for amount of income in the circular flow and C+I+G+(X-M) Allow 1 mark for national income/amount of money in the circular flow. Allow 1 mark for amount spent in an economy. Time period must be linked to output.

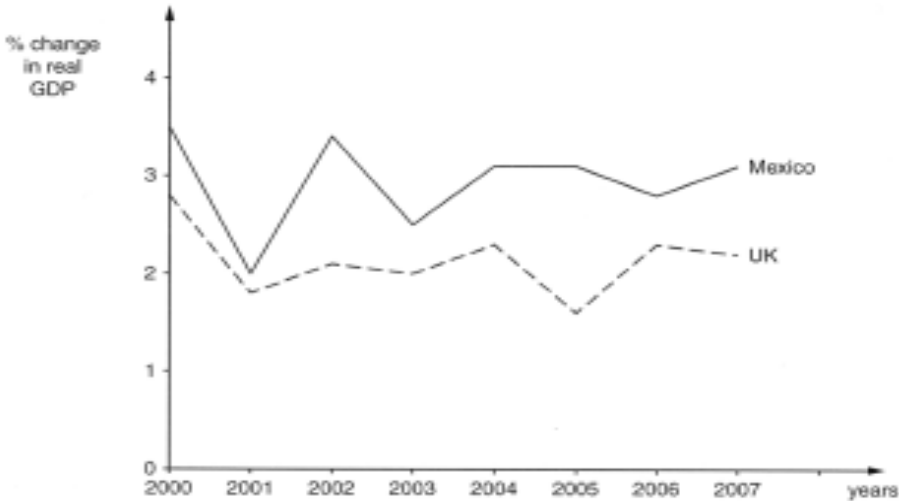| Question	Syllabus Ref	Expected Answer	Mark	Rationale
2		**Fig 1. Main export destinations 2007**		
		<table><tr><td>**Mexico exports**</td><td>**% of total exports**</td><td>**UK exports**</td><td>**% of total exports**</td></tr><tr><td>**1** USA</td><td>85.7</td><td>USA</td><td>14.6</td></tr><tr><td>**2** Canada</td><td>2.0</td><td>Germany</td><td>10.9</td></tr><tr><td>**3** Spain</td><td>1.3</td><td>France</td><td>9.4</td></tr><tr><td>**4** Japan</td><td>1.1</td><td>Ireland</td><td>7.8</td></tr></table>		
	(a)	**Using Fig 1. (above) describe how the destination of Mexico's exports compares with that of the UK.**	**[3]**	
		1 mark for the USA is the main export market for both countries. 1 mark for the USA is a more important export market for Mexico than for the UK. 1 mark for noting that the other three countries are different or for noting that, e.g. Canada is the second most important for Mexico whereas Germany is the second most important for the UK. 1 mark for mentioning that three of the UK's trading partners are members of the EU or European and two of Mexico's are members of NAFTA or from North America. 1 mark for UK's export destinations are more evenly spread. 1 mark for UK's export destinations are mainly closer to the UK. **Maximum 3 marks**		3 marks cannot be gained unless there is some direct comparison.

Question	Syllabus Ref	Expected Answer	Mark	Rationale
	(b)	**Using an aggregate demand and aggregate supply diagram, analyse the effects of a fall in exports on an economy.** Accurate diagram = up to a maximum of 5 marks.	**[8]**	
		1 mark for axes correctly labelled (i.e. macro labels). 1 mark for AD and AS curves correctly labelled. 1 mark for original equilibrium level shown by lines drawn to the axes. 1 mark for shift of AD curve to the left. 1 mark for new equilibrium shown by lines drawn to the axes. **See Appendix A**		Vertical axis:- accept price level, general price level Horizontal axis:- real GDP, national output, aggregate output 0 marks for equilibrium if micro diagram.
		Accurate explanation = up to a maximum of 5 marks. 1 mark for noting that exports are a component of AD/injection. 1 mark for noting that the AD curve will shift to the left (if not shown on the diagram). 1 mark for effect on output. 1 mark for effect on price level. 1 mark for effect on employment/unemployment. 1 mark for effect on balance of payments. 1 mark for noting there will be a multiplier effect. Up to 2 marks for explanation that effects on the price level and output will depend on the initial position on the AS curve. **Maximum 8 marks**		1 mark for depends on extent of fall in X. 1 mark if clear understanding of multiplier even without the term.

F582   **Mark Scheme**   **January 2009**

Question	Syllabus Ref	Expected Answer	Mark	Rationale
3	(a)	**Using information from the case study, lines 9-11, calculate the contribution of investment to Mexico's aggregate demand in 2007.**	**[2]**	
		2 marks for 20%. 1 mark for awareness that AD = C + I + G + (X − M).		
	(b)	**State and explain <u>two</u> causes of an increase in investment.**	**[6]**	
		1 mark for each of each two causes of an increase in investment identified eg rise in consumer expenditure, rise in business confidence, fall in corporation tax, fall in interest rates, advances in technology. 1 mark each for each of two basic explanatory points eg. higher consumer expenditure increases demand for firms' products. 1 mark each for each of two further elaborations eg to produce more products, firms may have to expand their capacity.		No marks for an answer which confuses investment and saving. Allow 1 mark for example of investment spending.

Question	Syllabus Ref	Expected Answer	Mark	Rationale
4	(a)	**Explain <u>one</u> difficulty of measuring economic growth.**	**[3]**	
		1 mark for stating a difficulty, eg. figure can be affected by inflation, some economic activity may not be declared, need to avoid transfer payments. 1 mark for basic explanation, eg have to remove the effects of inflation, have to assess the size of the informal economy. 1 mark for a further elaboration, eg real GDP shows changes in output, the size of the informal economy is influenced by tax rates.		1 mark only for noting a complex process of gathering and processing data.
	(b)	**Using Fig. 2 and the information in lines 12-15, comment on the view that Mexico's economic growth rate is more stable than that of the UK and that Mexico's GDP would soon match that of the UK.** A comparison of Mexico's and the UK's economic growth rates 2000–2007 Fig. 2	**[4]**	

Question	Syllabus Ref	Expected Answer	Mark	Rationale
		Up to 2 marks for analysis: • Mexico's growth rate fluctuates slightly more than the UK's • supporting evidence • Mexico's growth rate is higher than the UK's • supporting evidence • UK's growth rate fluctuates more than Mexico's after 2004/ 2005 • supporting evidence • UK's GDP is higher than Mexico's • supporting evidence		No marks for just stating 'yes it is' or 'no it is not' or 'yes it will' or 'no it will not'. Nothing for confusion that Mexico's GDP is higher.
		Up to 2 marks for evaluation: • gap between countries' GDP may narrow • gap narrowing depends on Mexico's growth rate remaining higher • given current gap it would take a long time		

| Question	Syllabus Ref	Expected Answer	Mark	Rationale
5	(a)	**Describe two causes of unemployment.**	**[4]**	
		2 marks for identifying a cause of unemployment, eg lack of aggregate demand, decline of particular industries. (x2). 1 mark each for each description eg if AD is low, firms' output will be low so production will be low and not many workers will be needed; (x2) Or switches in demand, changes in technology and reduced international competitiveness can lead to a decline of particular industries.		
	(b)	**Comment on the economic effects of low unemployment.**	**[8]**	
		Up to 2 marks for identifying effects: • high output • high tax revenue • low government spending on benefits • poverty trap • increased consumer confidence Up to 2 marks for explaining an effect/effects e.g. higher tax revenue because more people in work and spending more, higher tax revenue can increase spending on education and health care. Up to 4 marks for evaluating effects, eg will depend on: • how low unemployment is • the length of time people are unemployed • the type of unemployment • there can be advantages and disadvantages e.g. demand -pull inflation		Can accept what may at first appear to be social costs if linked into economic effects e.g. Rising crime as long as it is linked to increased government spending on the police, prisons.

Question	Syllabus Ref	Expected Answer	Mark	Rationale
6	(a)	**Using information from the case study, identify <u>two</u> supply side policies.**	**[2]**	
		1 mark each for each of two policies identified; simplifying tax system, reforming trade unions, spending more on transport infrastructure, spending more on education and spending more on health care.		1 mark for education or investment but any other factors should state the change. 0 marks for Government spending.
	(b)	**Discuss the extent to which supply side policies can be effective in reducing inflation.**	**[18]**	
		This question requires a discussion of how effective supply side policies can be in reducing rises in the general price level. *Supply side policies are aimed at increasing aggregate supply. If the policies are successful in raising productive capacity, it will be possible to increase output without putting too much upward pressure on the price level. Answers should recognise both the strengths and the limitations of supply side policies. For example, whilst supply side policies have the potential to allow an economy to grow without inflationary pressure, they take a long time to have an effect and there is no guarantee they will work.* **L4 For a discussion of how effective supply side policies are in reducing inflation. (13-18)** Answers should evaluate how effective supply side policies are in reducing inflation. Examples of L4 answers: • supply side policies, including education and training, may take years to have an influence on productivity and so on aggregate supply • supply side policies, including education, training, government subsidies may be expensive and government expenditure on them will have an opportunity cost • there is no guarantee supply side policies will work. For instance,		

Question	Syllabus Ref	Expected Answer	Mark	Rationale
		privatisation may or may not increase efficiency and cut costs • supply side policies can make economic growth more sustainable and enable AD to increase without generating inflation • supply side policies may have no impact on the price level if the economy is already operating with considerable spare capacity.		
		For 16+ marks, the discussion must have some depth to the factors influencing effectiveness and their relative importance. 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. **L3 For an analysis of supply side policies and how they might reduce inflation.** **(9-12)** Answers should analyse the link between supply side policies and inflation Examples of L3 answers: • an AD/AS diagram may be used, showing the AS curve shifting to the right with some supporting statements • education and training may increase labour productivity, which could lower costs of production and so reduce cost-push inflation • cutting income tax and reducing state benefits may increase the incentive to work and encourage enterprise and effort. If the number of hours worked increases, AS will shift to the right • a cut in corporation tax may increase the ability and willingness of firms to invest. This will increase productive capacity.		

Question	Syllabus Ref	Expected Answer	Mark	Rationale
		• privatisation and deregulation can increase competitive pressures and hence efficiency. This will lower costs of production. For 11+, there should be some depth of analysis of policy/policies. For 9-10, there may be some lack of depth, or the analysis may be based on supply side policies in general. 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.		
		L2 For an application of knowledge and understanding of supply side policies and the link to reducing inflation. (5-8) Answers should recognise how supply side policies are designed to affect the economy. Examples of L2 answers: • supply side policies should shift the AS curve to the right and so raise real GDP and lower the price level. • supply side policies are designed to increase productive capacity. Having more or better quality resources increases the amount an economy can produce. For 7+ marks, the answer should recognise the effects of supply side policies on both real GDP and the price level. For 5-6 marks, answers may recognise the effects of supply side policies on either real GDP or the price level. 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.		

Question	Syllabus Ref	Expected Answer	Mark	Rationale
		L1 For knowledge and understanding of the meaning of supply side policies and/or inflation. (1-4) These answers will show some awareness of the terms. Examples of L1 answers: • supply side policies are designed to increase AS • supply side policies seek to increase the efficiency of labour and product markets • inflation is a sustained rise in the price level. For 3+ marks, there will be both knowledge and understanding of both supply side policies and inflation. For 1-2 marks, the answer will show knowledge and understanding of either supply side policies or inflation. 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.		

Appendix A
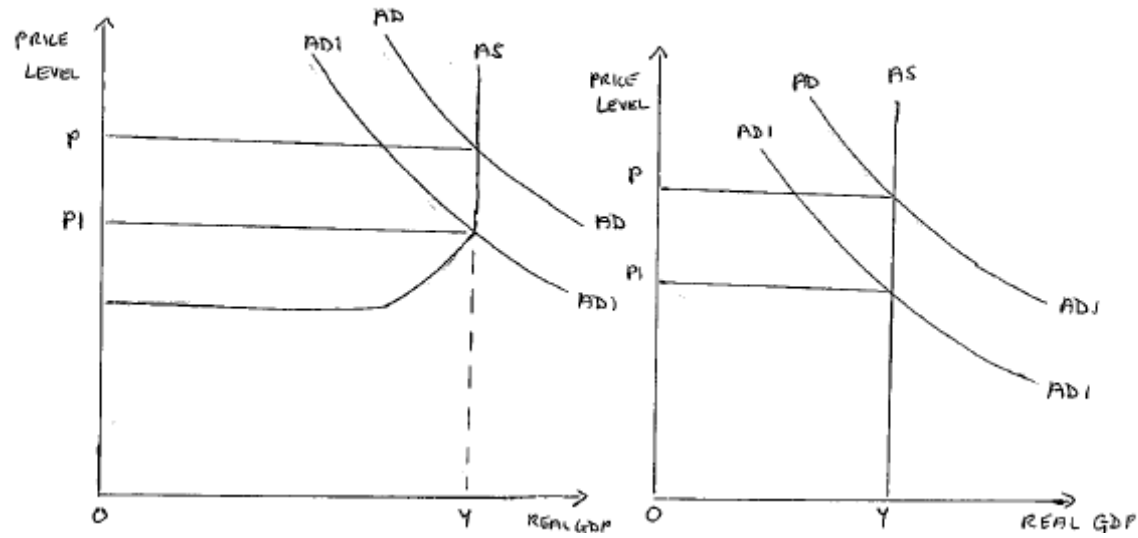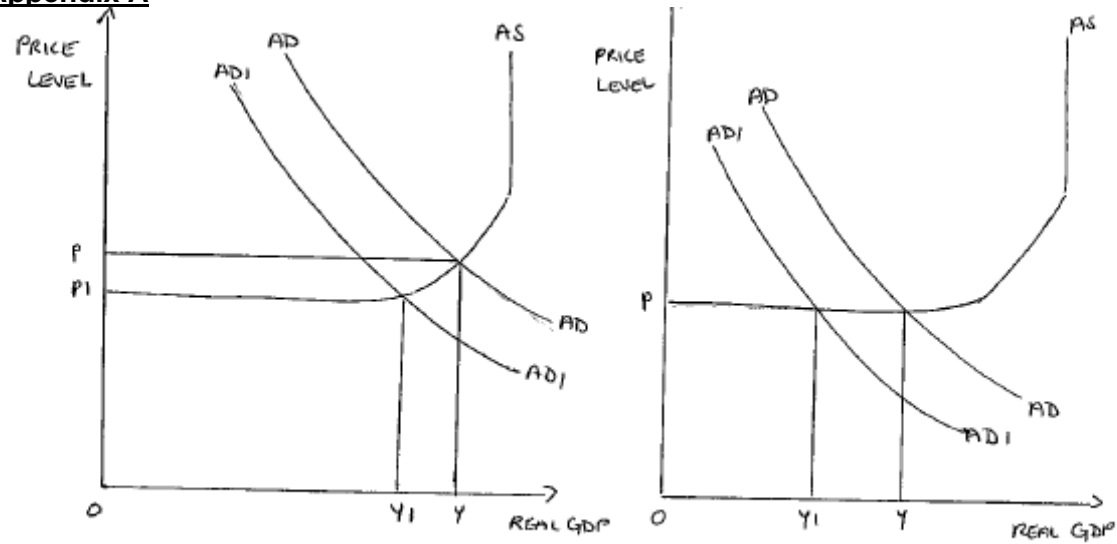
Grade Thresholds

Advanced GCE Economics (H061/H461))
January 2009 Examination Series

Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
F581	Raw	60	48	43	38	33	28	0
	UMS	100	80	70	60	50	40	0
F582	Raw	60	47	41	35	29	24	0
	UMS	100	80	70	60	50	40	0

0 candidates aggregated this series

For a description of how UMS marks are calculated see:
http://www.ocr.org.uk/learners/ums_results.html

Statistics are correct at the time of publication.

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

14 – 19 Qualifications (General)
Telephone: 01223 553998
Facsimile: 01223 552627
Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

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