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General Certificate of Education

Economics

ECON2: The National Economy

Mark Scheme

2010 examination - January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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January 2010**ECON2****Advance Subsidiary Economics Unit 2****Section A: Objective Test****January 2010**

The following list indicates the correct answers used in marking the candidates' responses.

1.	B	9.	D	17.	A
2.	D	10.	C	18.	B
3.	C	11.	D	19.	C
4.	A	12.	C	20.	D
5.	A	13.	D	21.	B
6.	C	14.	C	22.	D
7.	A	15.	A	23.	C
8.	B	16.	B	24.	B
				25.	A

Advanced Subsidiary Economics Unit 2

Section B: Data Response

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

- (i) **An issue based approach.** The mark scheme for parts (a), (b) and (c) of the data response questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.
- (ii) **A levels approach.** This approach is used for marking part (d) of the data response questions. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (e.g. 14 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

THE LEVELS MARK SCHEME FOR AS

Level Descriptions

In part (d) of the data response questions, approximately half the marks are available to award to candidates who demonstrate that they can evaluate economic arguments and evidence, and make informed judgements. An answer showing no evidence of evaluation, however good the analysis, should be awarded a maximum of 13 marks (in Level 3). The quality of evaluation should be the sole distinction between a Level 4 and Level 5 answer. It is not necessary for the answer to identify a wide range of issues to score the top mark. As indicated below, the **Quality of Written Communication** used should be taken into account when awarding marks.

Level 1: A very weak answer

Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. There might be some evidence of organisation in the answer but generally it fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar may be poor. There is little use of economic terminology.

0 to 6 marks

Mid-Point 4 marks

Level 2: A poor answer but some understanding is shown

One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may become confused and analysis will therefore be very limited. There may be some attempt to present alternative points of view but any attempt at evaluation is limited or superficial. There is some logic and coherence in the organisation of the answer. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

7 to 11 marks

Mid-Point 9 marks

Level 3: An adequate answer with some correct analysis but very limited evaluation

Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated and there is some evidence that the candidate can analyse issues. There will be some attempt to present alternative points of view and to evaluate the issues, arguments and/or data. There is some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand, but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

12 to 16 marks

Mid-Point 14 marks

Level 4: Good analysis but limited evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Some appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

17 to 21 marks

Mid-Point 19 marks

Level 5: Good analysis and evaluation

Two or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to answer the question. Clear understanding of alternative points of view is shown. Good use is made of evidence and/or theoretical analysis to evaluate the issues/arguments/economic models identified and to support conclusions. A clear final judgement is made. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are clearly expressed. Appropriate use is made of relevant economic terminology.

22 to 25 marks

Mid-Point 24 marks

THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- A** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

EITHER

Total for this question: 50 marks

26 TRADE, THE EXCHANGE RATE AND THE UK ECONOMY

<p>26 (a) Define the term 'balance of trade in goods and services' (Extract B, line 12). (5 marks)</p>
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For an acceptable definition, e.g.

- (i) The total value of exports of goods and services minus the total value of goods and services that are imported
- (ii) Exports of goods and services less imports of goods and services

NB Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'balance of trade in goods and services' even if the definition isn't exactly the same as the acceptable examples quoted above. **5 marks**

If the definition is incomplete (or inaccurate) marks can be broken down, for example as follows:

The difference between exports and imports of goods and services (i.e. the candidate does not make it clear that it is calculated by subtracting imports from exports) **4 marks**

Exports minus imports (i.e. the candidate doesn't make it clear that both goods and services are included) **4 marks**

Number (or volume) of goods and services exported minus the number (or volume) of goods and services imported **4 marks**

Define the term deficit as imports greater than exports **and/or** surplus as exports greater than imports **4 marks**

Imports of goods and services minus exports of goods and services **2 marks**

Imports less exports **2 marks**

This mark scheme does not allow examiners to award 1 mark for a point. Examiners must award 0, 2 or 4 marks for each point made by the candidate.

MAXIMUM FOR PART (a): 5 MARKS

26 (b) Using the data in **Extract A**, identify **two** components of the current account that have led to the improvement in the current account balance that occurred between the fourth quarter of 2007 and the first quarter of 2008. *(8 marks)*

Award up to 4 marks for each valid point made (two marks for identification and up to two marks for supporting references to the data). The valid points include:

- The fall in the deficit in the balance of trade in goods (from £24.1 billion to £22.7 billion **OR** by £1.4 billion). Alternatively, a candidate might identify the reduction in the deficit in the balance of trade in goods and services (from £14.6 billion to £13.5 billion **OR** by £1.1 billion)
- The increased surplus in the income balance (from £6.9 billion to £9.0 billion **OR** by £2.1 billion)
- The fall in the deficit in the current transfers balance (from £4.5 billion to £3.9 billion **OR** by £0.6 billion)

Give only **1 mark** for the supporting references to the data if 'billion' and/or '£' is not included.

A maximum of **4 marks** may be awarded if there is no use of correct statistics.

MAXIMUM FOR PART (b): 8 MARKS

26 (c) Explain the likely effect of a recession in the eurozone upon the current account of the UK balance of payments. **(12 marks)**

For candidates who:

define relevant terms, e.g. recession and current account of the balance of payments.

**(2 marks for each definition) - maximum of 2 marks
for definitions.**

state that the eurozone is a major market for UK exports.

2 marks

state that a recession in the eurozone is likely to lead to a deterioration in the current account balance.

2 marks

Award up to 6 marks for each effect identified and analysed

explain that a recession in the eurozone means a fall in consumer spending (and/or national income) **(2 marks)**, hence there will be a reduction in the demand for UK exports of final goods and services **(2 marks)** and the fall in UK exports increases the size of the deficit **(2 marks)**.

Up to 6 marks

2 marks should be awarded for each logical link in the chain of reasoning

explain that a recession in the eurozone means a fall in production and hence a reduction in the demand for raw materials and semi-finished goods exported from the UK. **Up to 6 marks**

explain the significance of income elasticity of demand (or the marginal propensity to import) in determining the extent of the fall in demand for UK exports (*credit to be given even though knowledge of YED and the MPM are not required for this module*). **Up to 6 marks**

explain that a recession in the eurozone may lead to lower inflation, meaning that UK exports are less competitive, reducing the demand for UK exports. **Up to 6 marks**

explain that the recession in the eurozone might lead to lower prices for European exports and that this may result in higher imports into the United Kingdom from the eurozone. **Up to 6 marks**

provide a plausible explanation of the impact of a recession in the eurozone on any other component of the current account balance (e.g. a recession in the eurozone might lead to lower earnings on UK investments in Europe and hence reduce the surplus on the income balance). **Up to 6 marks per component**

Candidates who assert that a recession in the eurozone will affect the exchange rate should only be given credit for the effect on the current account of the UK balance of payments if they provide a plausible explanation of why the euro exchange rate might change. **Up to 6 marks**

Any other **relevant** effect of a recession in the eurozone upon the current account of the UK balance of payments. **Up to 6 marks**

Award **up to 4 marks** for the use of relevant diagrams (**2 marks** for labelling, **2 marks** for the information shown) i.e. candidates can achieve **4 marks** for one diagram.

MAXIMUM FOR PART (c): 12 MARKS

26 (d) Assess the view that a fall in the exchange rate of the pound will help to improve the performance of the UK economy. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *For this question they might identify plausible reasons why a fall in the pound might **both** improve the performance of the UK economy **and** reduce it. This might relate to the effects on a particular objective of economic policy or on the overall performance of the economy. The use evidence to support arguments should also be rewarded as evaluation. The difference between short-run and long-run effects might also be discussed. Candidates might also discuss other factors that will affect how significant the reduction in the exchange rate is for the performance of the UK economy, e.g. inflation in the UK compared to other economies.*

Issues and areas for discussion:

Extract B and Extract C provide some help to candidates, particularly the references to the impact of a lower exchange rate upon competitiveness and the balance of trade in goods and services. It is anticipated that answers will focus on the main indicators of macroeconomic performance, i.e. inflation, growth, unemployment and the balance of payments. However, credit can also be given for discussion of other reasonable indicators of macroeconomic performance such as productivity and living standards.

- the main indicators of macroeconomic performance
- the impact of a fall in the exchange rate upon export and import prices (on competitiveness)
- the possible effects on inflation (demand-pull and cost-push)
- the possible effects on economic growth
- the possible effects on employment and unemployment
- the possible effects on the current account balance
- the effects on other indicators of economic performance such as living standards, manufacturing industry, productivity

When discussing the above, candidates can gain credit for evaluation if they recognise that the fall in the value of the pound can have both favourable and unfavourable effects on the economy, e.g. it may stimulate growth and employment but add to inflationary pressures. Further marks for evaluation might come from discussing the following:

- short-run versus long-run effects
- depends on the current state of the economy
- the significance of elasticities
- how the effects of a fall in the exchange rate might be affected by other factors, e.g. changing government policy, supply-side changes within the UK and in overseas economies

- a conclusion that attempts to bring together the arguments presented and to assess whether or not a fall in the exchange rate is likely to improve the overall performance of the UK economy

The issues identified above are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

Also give credit for:

- use of diagrams, e.g. AD/AS
- use of data and reference to the UK and/or other economies
- an overview of issues raised; a final judgement that is probably contained in a concluding paragraph.

USE THE LEVELS MARK SCHEME ON PAGES 5 AND 6

MAXIMUM FOR PART (d): 25 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS

OR

27 EMPLOYMENT AND UNEMPLOYMENT

Total for this question: 50 marks

27 (a) Define the term 'real GDP' (**Extract F**, line 2).

(5 marks)

For an acceptable definition, e.g.

- (i) a measure of national income with the effects of inflation removed (when inflation is taken into account is acceptable)
- (ii) the value of total expenditure with the effects of inflation removed
- (iii) national income measured at constant prices
- (iv) a measure of the total output of the economy

NB Full marks should be awarded to a candidate who demonstrates a clear understanding of the term 'real GDP' even if the definition isn't exactly the same as the acceptable examples quoted above. **5 marks**

If the definition is incomplete (or inaccurate) marks can be broken down, for example as follows:

For stating that:

'real' means that the effects of inflation have been removed (adjusted for inflation is also acceptable) **2 marks**

GDP is a measure of national income **2 marks**

GDP = output = income = expenditure **2 marks**

GDP = Gross Domestic Product **2 marks**

real is the same as measuring at constant prices (or the chained volume measure) **2 marks**

Gross is before capital consumption (depreciation) has been taken into account **2 marks**

Domestic is before net property income from abroad has been taken into account **2 marks**

$GDP = C + I + G + X - M$ **2 marks**

This mark scheme does not allow examiners to award 1 mark for a point. Examiners must award 0, 2 or 4 marks for each point made by the candidate.

MAXIMUM FOR PART (a): 5 MARKS

27 (b) Using **Extract D**, identify **two** significant points of comparison between changes in the employment rate and changes in the unemployment rate between January 2004 and May 2008. *(8 marks)*

Award up to 4 marks for each valid point made (two marks for identification and up to two marks for supporting references to the data). The valid points include:

- the rate of employment and unemployment both rose over the period as a whole (each by less than half a percent) (unemployment 4.9% to 5.2%, employment 74.8% to 74.9%. It is acceptable if employment is unchanged but they need to quote figures.)
- through most of the period a rise in employment is accompanied by a fall in unemployment (e.g. from the start of 2007 to the end of the period the employment rate rose by approximately .5% whereas the unemployment rate fell by approximately .25%)
- both the rates of employment and unemployment were fairly stable over the period (employment varied between 74.3% and 75.0% and unemployment varied between 4.7% and 5.6%)
- the largest increase in unemployment is between the middle of 2005 and the middle of 2006 and although the rate of employment fell during this period the decline was more modest (unemployment rose from around 4.7% to 5.6% whereas the employment rate fell from around 74.8% to approximately 74.5%)
- the employment rate is much greater than the unemployment rate (the employment rate is around 74% whereas the unemployment rate is around 5%)
- the unemployment rate is more volatile than the employment rate (the unemployment rate varies between 4.7% and 5.6% whereas the variation in the employment rate is between 74.2% and 75%)

Give only **1 mark** for the supporting references to the data if the % sign is not included.

A maximum of **2 marks** may be awarded if there is no comparison and a maximum of **4 marks** if there is no use of correct statistics or if a candidate confines the comparison to just one indicator.

If the candidate simply trawls through the data, award a maximum of **4 marks**.

A maximum of **6 marks** may be awarded where there is evidence of an overview being taken, even though parts of the answer give the impression of a trawl through the data.

MAXIMUM FOR PART (b): 8 MARKS

27 (c) Explain why 'weaker demand conditions in the UK economy' (**Extract E**, lines 6-7) are likely to lead to rising unemployment. **(12 marks)**

For candidates who:

define relevant terms, e.g. what is meant by 'weaker demand conditions' and/or unemployment **(2 marks for each definition) - maximum of 2 marks for definitions**

identifying one or more factors that might lead to a fall in AD **2 marks**

stating that lower demand will reduce production **(2 marks)** because a fall in aggregate demand will result in the stock of unsold goods increasing **(2 marks)** therefore firms will reduce production so that their stocks return to more normal levels **(2marks)** and they will also lower output so that it makes the new lower level of output **(2 marks)**.

2 marks should be awarded for each logical link in the chain of reasoning

explain the link between output, employment and unemployment **Up to 6 marks**

explain the significance of changes in productivity/profitability **Up to 6 marks**

explain possible multiplier effects **Up to 6 marks**

Any other convincing reasons why weaker demand conditions in the UK economy might lead to rising unemployment **Up to 6 marks**

Award **up to 4 marks** for the use of relevant diagrams **(2 marks** for labelling, **2 marks** for information shown) i.e. candidates can achieve **4 marks** for one diagram.

MAXIMUM FOR PART (c): 12 MARKS

27 (d) Extract F (lines 10-12) states: 'A significant increase in unemployment seems inevitable and, in the short run, there is not much that a government can do about it.'

Evaluate alternative measures which can be used to reduce unemployment.

(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 13 marks**.

Candidates who make a genuine attempt at evaluation should be well rewarded. *For this question candidates are likely to evaluate by discussing the advantages and disadvantages of individual policies. They should also be rewarded for comparing the relative merits of different policies. Candidates might also consider the effectiveness of the policies in dealing with different causes of unemployment and the possible conflicts with other objectives of economic policy. The difference between the long-run and short-run effects of individual policies might also be discussed. Some candidates might use their knowledge of recent developments in the United Kingdom economy and elsewhere to help them assess the pros and cons of the policies a government can use to try to reduce unemployment.*

Issues and areas for discussion:

It is anticipated that candidates will draw on some of the issues raised in the extracts such as the reference in Extract F that indicates that it is difficult for the Bank of England to cut interest rates when inflation is high. It is also possible that candidates will draw on their knowledge of the measures that have been adopted during the past decade and recent trends in the UK economy to help them to assess the alternative policies available to a government wishing to reduce unemployment.

- definition of unemployment
- types/causes of unemployment, e.g. frictional, structural and cyclical unemployment

(Although classifications of unemployment such as real wage unemployment and the natural rate of unemployment are not part of the AS specification, if candidates use these ideas in a manner which is relevant to the question they should be rewarded)

- policy measures linked to the different causes of unemployment
- increasing aggregate demand to reduce cyclical unemployment
- tax cuts as a policy to reduce unemployment
- increased government spending
- cuts in interest rates
- measures to increase the supply of money and credit
- reductions in the exchange rate
- supply-side policies to reduce unemployment
- measures to improve the geographical and occupational mobility of labour (e.g. housing market reforms and retraining)
- better job information services
- government support of particular industries
- measures to increase incentives to work, e.g. reform of the tax-benefit system

Discussion that should be rewarded as evaluation includes:

- the problems and constraints when using fiscal policy to try to reduce unemployment, e.g. large budget deficits, growing national debt, time lags
- the problems and constraints when using monetary policy to try to reduce unemployment, e.g. possible conflict with the use of interest rates to control inflation, the effect of a fall in the exchange rate on living standards, time lags
- problems and benefits of using supply-side measures to reduce unemployment, e.g. possible ineffectiveness when there is a general lack of demand, help to avoid possible conflicts with other policy objectives
- an assessment of the pros and cons of individual policy measures, e.g. measures to increase incentives to work may involve reducing the real income of those who are unemployed and may be judged to be inequitable
- constraints imposed by external events upon the effectiveness of policies to reduce unemployment, including demand-side and supply-side shocks
- possible conflicts between policy objectives as a disadvantage of some policies that are used to reduce unemployment
- short-run versus long-run effects of the different policies
- a conclusion that attempts to provide an overall assessment of the relative merits of the policies identified and discussed

The issues identified above are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

Also give credit for:

- use of diagrams, e.g. AD/AS
- use of data plus reference to the UK and/or other economies
- an overview of issues raised; a final judgement that is probably contained in a concluding paragraph

USE THE LEVELS MARK SCHEME ON PAGES 5 AND 6

MAXIMUM FOR PART (d): 25 MARKS

TOTAL FOR THIS QUESTION: 50 MARKS