RECOGNISING ACHIEVEMENT

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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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.

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]**	

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.

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.

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.

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.

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!

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.

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.		With diagram 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. Without diagram 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.

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.

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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