



**GCE**

# **Economics**

Advanced Subsidiary GCE

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

## **Mark Scheme for June 2011**

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Question	Expected Answer	Mark	Rationale
1 (a)	<p><b>What is meant by international trade?</b>                      Up to a total of two marks                      One mark for exchange of products                      One mark for between countries / over national boundaries  <b>Or</b>                      One mark for reference to exports                      One mark for reference to imports</p>	[2]	Reference to trade on its own not sufficient.
1 (b)	<p><b>Using information in the case study, identify two methods of trade restriction.</b>                      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</p>	[2]	
2 (a)	<p><b>Define the term ‘Gross Domestic Product’ per head.</b>                      Up to three marks                      One mark for total output/income/expenditure.                      One mark for linking total output/income/expenditure to <b>either</b> an economy/country <b>or</b> to over a given time period                      One mark for GDP/total output/total income/total expenditure divided by population.</p>	[3]	
2 (b)	<p><b>Describe two economic costs of a rapid economic growth.</b>                      Costs including:</p> <ul style="list-style-type: none"> <li>• current account deficit</li> <li>• inflation</li> <li>• depletion of natural resources</li> <li>• pollution</li> <li>• economic instability</li> <li>• increase in income inequality.</li> </ul> <p>Exemplar response:                      a rise in AD may increase output but may, as full capacity is reached, cause demand–pull inflation</p>	[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.

Question	Expected Answer	Mark	Rationale
3 (a)	<p><b>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 21<sup>st</sup> century.</b></p> <p>Up to two marks</p> <p>Two marks for it grew more slowly One mark for it grew.</p>	[2]	No marks for just mentioning that consumer expenditure 'started to slow'. <b>BUT</b> accept "growth in spending by households started to slow" for 2 marks
3 (b)	<p><b>Explain the likely relationships between changes in consumer expenditure and investment.</b></p> <p>Up to four marks</p> <p>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.</p> <p>Note: Candidates may refer to the accelerator theory. This is <b>not</b> required but should be rewarded if given.</p>	[4]	Note: obviously acceptable to explain how a decrease in consumer expenditure could reduce investment/lower investment could reduce consumer expenditure.

Question	Expected Answer	Mark	Rationale
4 (a)	<p><b>Using Fig.1 describe what happened to the price level in Argentina between 2008 and 2009.</b>            Up to two marks            One mark for it rose            One mark for more slowly</p>	[2]	
4 (b)	<p><b>Using Fig. 1, describe what happened to the budget balance position in each of Argentina and the US over the period shown.</b>            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.</p>	[2]	Argentina – not sufficient to just state it went into a deficit.
4 (c)	<p><b>Explain whether it is possible to conclude that there were fewer unemployed people in the USA than in Argentina in 2008.</b>            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.</p> <p>Maximum three marks.</p>	[3]	Accept size of the population is not known.

Question	Expected Answer	Mark	Rationale
5 (a)	<p><b>Explain why the changes in income tax, implemented by the US government in February 2009 may have caused inflation.</b> Up to three marks</p> <p>One mark only for identifying what has happened to tax rates.</p> <p>E.G.</p> <ul style="list-style-type: none"><li>• There was a difference between low, middle and high earners.</li><li>• Recognising that the income tax rates on lower and middle income earners were reduced whilst the income tax rate on high earners was increased.</li></ul> <p>One mark only for any one of the following points:</p> <ul style="list-style-type: none"><li>• consumer expenditure is likely to have risen</li><li>• higher consumer expenditure may have increased aggregate demand</li><li>• lower and middle earners tend to spend a high proportion of their income/have a high marginal propensity to consume.</li><li>• high earners tend to spend a small proportion of their income/have a low marginal propensity to consume.</li></ul> <p>One mark only for:</p> <ul style="list-style-type: none"><li>• higher AD may have caused inflation/if AD increases more rapidly than AS, there will be inflation.</li></ul> <p>Maximum three marks.</p>	[3]	

Question	Expected Answer	Mark	Rationale
5 (b)	<p><b>Comment on whether a cut in tax rates will always result in a budget deficit.</b></p> <p>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).</p> <p>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.</p> <p>Comment Up to four marks for evaluating whether a cut in tax rates will result in a budget deficit, eg:</p> <ul style="list-style-type: none"> <li>• coming to a judgement</li> <li>• it will depend on the initial position</li> <li>• it will depend on the size of the cut in tax rates</li> <li>• if the incentive effects are uncertain</li> <li>• the effects of cuts in direct and indirect tax on consumer expenditure and investment are uncertain</li> <li>• it will depend on what the government does to spending</li> <li>• a cut in tax rates may reduce tax evasion.</li> </ul> <p>Note a maximum of 6 marks.</p>	[6]	<p>Evaluative marks can only be awarded if there is underlying analysis.</p> <p>Allow up to three marks for one evaluative point well made.</p> <p>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.</p>

Question	Expected Answer	Mark	Rationale
6	<p><b>Comment on whether there is a conflict between the policy objectives of reducing unemployment and reducing inflation.</b></p> <p>Analysis Up to four marks for explaining why the objectives may conflict: One mark for:</p> <ul style="list-style-type: none"> <li>• identifying an appropriate measure/policy which will increase/decrease AD</li> <li>• identifying the effect of the measure/policy on consumer expenditure</li> <li>• identifying an appropriate measure/policy which will increase AS</li> <li>• Lower inflation may be achieved by increasing AS</li> <li>• Identifying the likely effect of a change in AD on unemployment</li> <li>• Identifying the likely effect of a change in AD on inflation</li> <li>• A change in unemployment may change consumer expenditure</li> <li>• A change in unemployment may change AD</li> <li>• A change in unemployment may influence wage claims and so may affect cost-push inflation.</li> </ul> <p>Comment Up to four marks for evaluating whether the policy objectives conflict eg:</p> <ul style="list-style-type: none"> <li>• it will depend on how much unemployment falls</li> <li>• it will depend on the cause of unemployment</li> <li>• It may depend on the cause of inflation</li> <li>• it will depend on the initial level of economic activity</li> <li>• different policy measures may be used to achieve the objectives</li> <li>• supply-side policies may be able to reduce both unemployment and inflation in the long run</li> <li>• lower inflation may reduce unemployment by making the country's products more internationally competitive</li> <li>• other costs may fall and so cost-push inflation may not occur.</li> </ul> <p>Note: a maximum of 7 marks</p>	[7]	<p>Evaluative marks can only be awarded if there is underlying analysis</p> <p>Up to three marks for one evaluative point well made.</p> <p>Reference to an appropriate measure/policy might be e.g. an increase in tax or deflationary monetary policy to reduce inflation.</p> <p>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.</p>



Question	Expected Answer	Mark	Rationale
7	<p><b>Discuss the effectiveness of lowering the rate of interest to stimulate economic growth.</b></p> <p>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.</p> <p><b>L4 For a discussion of how lowering the rate of interest may stimulate economic growth. (13 – 18)</b></p> <p>Examples of possible L4 answers:</p> <ul style="list-style-type: none"> <li>• The effect will depend on the size of the change. A larger cut may have a greater impact</li> <li>• 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</li> <li>• Lowering the rate of interest may not lead to higher AD if consumers and firms lack confidence</li> <li>• In the long run it is important for both AD and AS to increase for economic growth to be sustained and sustainable</li> <li>• It is possible that commercial banks may not focus on a lower rate of interest</li> <li>• May be offset by another policy measure.</li> </ul>	[18]	<p>Only accept as evaluation another policy measure may be more effective if explained why.</p> <p><b>Note a maximum of 13 marks for an answer which analyses and evaluates the effects on AD without a clear link to economic growth.</b></p>

Question	Expected Answer	Mark	Rationale
	<p>For 16 – 18 marks, the discussion must have some depth to the factors influencing the effectiveness of the measure.</p> <p>For 13 – 15 marks, a discussion which does evaluate but which lacks some depth or is relatively narrowly focused.</p> <p>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.</p> <p><b>L3 For an analysis of how a lower rate of interest may stimulate economic growth. (9 – 12)</b></p> <p>Answers should analyse how a lower rate of interest may influence AD and AS, eg.</p> <ul style="list-style-type: none"> <li>• The inclusion of an AD/AS diagram showing how it may affect economic activity with an explanation of why AD/AS may increase</li> <li>• It may increase consumption as saving will be discouraged</li> <li>• It may increase C as borrowing will be cheaper</li> </ul>		<p>For 18 marks a candidate needs to have two strong evaluation points or one strong and two reasonable</p> <p>For 17 marks a candidate needs to have at least one strong evaluation point and one reasonable point</p> <p>For 16 marks a candidate needs to have one strong evaluation point on one brief evaluation point or two reasonable evaluation points</p> <p>For 15 marks a candidate needs to have one strong evaluation point or one reasonable evaluation point and one brief evaluation point</p> <p>For 14 marks a candidate needs to have one reasonable evaluation point or two brief evaluation points</p> <p>For 13 marks a candidate needs to have one brief evaluation point</p> <p>12 marks for good analysis of the impact on two influences on AD and also the impact on AS.</p> <p>11 marks for good analysis of the impact on two influences on AD <b>or</b> on AS, or one good and one reasonable point on AD and one on AS</p> <p>10 marks for reasonable analysis of the impact on two influences on AD.</p>

Question	Expected Answer	Mark	Rationale
	<ul style="list-style-type: none"> <li>• It may increase C as discretionary income will rise</li> <li>• It may increase investment as borrowing will be cheaper</li> <li>• It may increase I as firms will expect higher sales</li> <li>• It may increase I as the opportunity cost of investment will fall</li> <li>• It may increase (X-M) as a lower interest rates may reduce the exchange rate higher C, I and (X-M) will raise AD</li> <li>• It may increase AS as higher I will increase productive capacity</li> <li>• An increase in AD may lead to an increase in real GDP.</li> </ul> <p>There should be some direct link in the analysis to economic growth. This might be by the use of an AD/AS diagram.</p> <p>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.</p> <p><b>L2 For an application of knowledge and understanding of how a lower rate of interest may stimulate economic growth. (5 – 8)</b></p> <p>Answers should recognise how a lower interest rate may affect economic growth.</p> <p>Examples of possible L2 answers:</p> <ul style="list-style-type: none"> <li>• A lower interest rate may increase C</li> <li>• A lower interest rate may increase I</li> <li>• A lower interest rate may increase (X-M)</li> <li>• A lower interest rate may increase AD</li> <li>• A lower interest rate may increase AS.</li> </ul> <p>For 7 – 8 marks, the answer should recognise the effect of a lower interest rate on three or four factors.</p>		<p>9 marks for reasonable analysis of the impact on one influence on AD.</p> <p>8 marks for recognising the effect on AS and three components/impacts on AD <b>and</b> a hint of explanation on at least one of these.</p> <p>7 marks for recognising the effect on three components/impacts on AD <b>or</b> a hint of explanation on at least one of these.</p> <p>6 marks for recognising the effect on two components/impacts on AD.</p> <p>5 marks for recognising the effect on one component/impacts on AD.</p>

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	<p>For 5 – 6 marks, answers may recognise the effect of a lower interest rate on one or two factors.</p> <p>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.</p> <p><b>L1 For knowledge and understanding of economic growth and the rate of interest. (1 – 4)</b></p> <p>These answers will show some awareness of the terms.</p> <p>Examples of L1 answers:</p> <ul style="list-style-type: none"> <li>• Macroeconomic performance covers economic growth, unemployment, inflation and the current account position</li> <li>• Economic growth is an increase in real GDP</li> <li>• Economic growth is an increase in an economy's productive potential</li> <li>• The interest rate is the cost price of money</li> <li>• The interest rate is the reward for saving</li> <li>• The interest rate is the cost of borrowing.</li> </ul> <p>For 3 – 4 marks, there will be knowledge and understanding of both economic growth and the interest rate.</p> <p>For 1 – 2 marks, there will be knowledge and understanding of economic growth and the interest rate.</p> <p>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.</p>		

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