



**GCE**

# **Economics**

Advanced GCE **F582**

The National and International Economy

## **Mark Scheme for June 2010**

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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.

Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

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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.

Question	Syllabus Ref	Expected Answer	Mark	Rationale
1		<p><b>Identify <u>three</u> government macroeconomic policy objectives.</b> 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.</p>	[3]	<p>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.</p> <p>Also allow reduced unemployment and reduced inflation.</p>
2 (a)		<p><b>Using Fig. 1, describe the changes in Australia's interest rate and inflation rate between 2005 and 2008.</b> 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.</p>	[3]	<p>Award 1 mark only for a year by year description – even if it includes inflation rate fell in 2006.</p> <p>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).</p>
(b)		<p><b>Comment on the effectiveness of increasing the rate of interest to reduce inflation.</b> Up to 3 marks for analysing how an increase in the rate of interest may reduce inflation:</p> <ul style="list-style-type: none"> <li>• It will increase the cost of borrowing</li> <li>• It will increase the reward for saving</li> <li>• It will reduce consumer expenditure</li> <li>• It will reduce investment</li> <li>• It will reduce aggregate demand.</li> <li>• Lower aggregate demand will put pressure on producers to cut</li> </ul>	[6]	<p>Note – a candidate cannot access the evaluation marks without any analytical underpinning.</p> <p>No marks if discussing the effectiveness of reducing the rate of interest.</p>

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		<p>prices/restrict price rises.</p> <p>Up to 3 marks for evaluating whether it will reduce inflation e.g.:</p> <ul style="list-style-type: none"> <li>• It will be influenced by how much the rate of interest is increased</li> <li>• Aggregate demand may continue to rise if consumers and producers are optimistic about the future</li> <li>• It will raise firms' costs of production which may contribute towards cost-push inflation.</li> </ul>		
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Question	Syllabus Ref	Expected Answer	Mark	Rationale
3		<p><b>Explain how a high value currency can result in a country having a trade deficit.</b></p> <p>1 mark for a high value of the currency will mean export prices are high.</p> <p>1 mark for high export prices may discourage demand.</p> <p>1 mark for a high value of the currency will result in import prices being low.</p> <p>1 mark for low import prices may increase demand.</p> <p>1 mark for low export revenue and high import expenditure can result in a trade deficit.</p> <p>Up to a maximum of 4 points.</p>	[4]	
4 (a)		<p><b>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.</b></p> <p>1 mark for axes correctly identified.</p> <p>1 mark for aggregate demand curve correctly labelled.</p> <p>1 mark for aggregate supply curve correctly labelled.</p> <p>1 mark for AD curve intersecting AS curve at or close to the vertical part of the AS curve/AD shifting to the right.</p>	[4]	<p>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.</p>

Question	Syllabus Ref	Expected Answer	Mark	Rationale
4 (b)		<p><b>Analyse how the proposed change in Australia's income tax rates would be expected to influence aggregate demand.</b> Application:</p> <p>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.</p> <p>Analysis:</p> <p>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.</p> <p>Maximum of 6 marks.</p>	<b>[6]</b>	<p>For components of AD accept <math>AD=C+I+G+(X-M)</math>.</p> <p>Note – No marks for evaluation.</p>
5 (a)		<p><b>State and explain two economic costs of inflation.</b></p> <p>1 for identification, 1 mark for some explanation and 1 mark for a further explanation x2. Possible examples include:</p> <ul style="list-style-type: none"> <li>• inflationary noise (1) as inflation can distort price signals (1) which can result in consumers and firms making inefficient choices (1)</li> <li>• menu costs (1) as firms will have to change their prices in catalogues etc more frequently (1) and this will raise firms' costs (1)</li> <li>• Loss of international competitiveness (1) which will result in</li> </ul>	<b>[6]</b>	<p>Lower consumer spending, unemployment, rising interest rates and depreciation of the value of the pound (£) will only gain 1 mark unless well established.</p>

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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)		<p><b>Comment on whether Fig. 2 supports the view that high inflation is associated with low unemployment.</b></p> <p>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.</p> <p>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.</p>	<b>[6]</b>	<p>Note – a candidate cannot access the evaluation marks without any analytical underpinning.</p>
6		<p><b>State and explain two supply-side policies.</b></p> <p>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.</p>	<b>[4]</b>	<p>A candidate must identify a policy e.g. nothing for advances in technology in isolation from a policy.</p> <p>Accept a cut in interest rates but only if linked to an increase in investment.</p>

Question	Syllabus Ref	Expected Answer	Mark	Rationale
7		<p><b>Discuss the extent to which economic growth may benefit an economy.</b></p> <p>This question requires a discussion of the possible effects of economic growth.</p> <p><i>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.</i></p> <p>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:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• For living standards to rise, real GDP has to increase by more than population, so real GDP per head increases</li> <li>• If income is unevenly distributed, only a small proportion of the population may benefit for economic growth</li> <li>• 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</li> </ul>	[18]	<p><b>Note evaluation marks can only be awarded if there is underlying analysis.</b></p> <p>To gain 18 marks a candidate needs to have 2 strong evaluative points <b>or</b> one strong and two reasonable.</p> <p>To gain 17 marks a candidate needs to have at least 1 strong evaluative point <b>and</b> one reasonable point.</p> <p>To gain 16 marks a candidate needs to have one strong evaluative point and one brief evaluative point <b>or</b> two reasonable evaluative points.</p> <p>To gain 15 marks a candidate needs to have one strong evaluative point <b>or</b> one reasonable evaluative point and one brief evaluative point.</p> <p>To gain 14 marks a candidate needs to have one reasonable evaluative point <b>or</b> two brief evaluative points.</p> <p>To gain 13 marks a candidate needs to have one brief evaluative point.</p>

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				Note if candidate is taking a two-sided view (underpinned by analysis on <b>both</b> 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		<ul style="list-style-type: none"> <li>• Outcome will depend on the nature of economic growth i.e. whether it is short or long run.</li> <li>• 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</li> <li>• 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</li> <li>• 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.</li> </ul> <p>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.</p> <p>For 13-15 marks, a discussion that recognises in less depth what factors influence the extent to which economic growth may benefit an economy.</p> <p>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.</p> <p>L3 For an analysis of the consequences of economic growth. (9-12) Answers should analyse either the benefits or costs of economic growth.</p> <p>Examples of possible L3 answers:</p> <ul style="list-style-type: none"> <li>• Economic growth can raise living standards by producing more goods and services and increasing employment opportunities</li> <li>• 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</li> </ul>		<p>To gain 12 marks a candidate needs to have depth of analysis on at least 3 consequences.</p> <p>To gain 11 marks a candidate needs to have analysis on 3 consequences <b>and</b> some depth on 2 of the consequences.</p>

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		<p>goods to producing capital goods.</p> <p>For 11+ marks there must be some depth and width of analysis covering at least three costs or benefits.</p>		<p>To gain 10 marks a candidate needs to have some analysis on 2 consequences.</p> <p>To gain 9 marks a candidate needs to have some analysis on one consequence.</p>
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Question	Syllabus Ref	Expected Answer	Mark	Rationale
7 cont'd		<p>For 9-10 marks there may be some lack of depth or width</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>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:</p> <ul style="list-style-type: none"> <li>• Economic growth can cause pollution</li> <li>• Economic growth can increase living standards</li> <li>• Economic growth can reduce government spending on state benefits.</li> </ul> <p>For 7+ marks, the answer should recognise three or more consequences.</p> <p>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.</p> <p>L1 For knowledge and understanding of aggregate demand. (1-4) These answers will show some awareness of the term. Examples of L1 answers:</p> <ul style="list-style-type: none"> <li>• Economic growth is an increase in real GDP</li> <li>• Economic growth is an increase in productive capacity</li> <li>• Economic growth is a government macroeconomic policy objective</li> <li>• Economic growth is an increase in output.</li> </ul>		<p>To gain 8 marks a candidate needs to identify 3 consequences <b>and</b> a hint of explanation on at least 1 of these.</p> <p>To gain 7 marks a candidate needs to identify 3 consequences <b>or</b> a hint of explanation on at least 1 of these.</p> <p>To gain 6 marks a candidate needs to identify 2 consequences.</p> <p>To gain 5 marks a candidate needs to identify 1 consequence.</p>

Question	Syllabus Ref	Expected Answer	Mark	Rationale
7 cont'd		<p>For 3+ marks there will be reference to real GDP or productive capacity.</p> <p>For 1-2 marks, the answer will show knowledge and understanding of an increase in output.</p> <p>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.</p>		

**Assessment Grid**

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



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