



LEVEL ECONOMICS

ECON2/Unit 2 The National Economy
Mark scheme

June 2014

Version 1.0/Final

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised 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 students' 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.

Further copies of this Mark Scheme are available from aqa.org.uk

AQA Advanced Subsidiary Economics**June 2014****ECON2/1****Section A: Objective Test (ECON 2/1)****The following list indicates the correct answers used in marking the candidates' responses.****KEY LIST**

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

Advanced Subsidiary Economics

June 2014

ECON2/2

Mark Scheme

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 questions **01, 02, 03, 05, 06** and **07** 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.

A levels approach. This approach is used for marking questions **04** and **08** 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 at 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 (eg 13 marks for Level 3). Move up and 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 levels descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

**LEVELS OF RESPONSE MARK SCHEME
FOR USE WITH QUESTIONS 04 AND 08 ONLY**

AS LEVELS OF RESPONSE	AO1 KNOWLEDGE and UNDERSTANDING of theories, concepts and terminology	AO2 APPLICATION of theories, concepts and terminology	AO3 ANALYSIS of economic problems and issues	AO4 EVALUATION of economic arguments and evidence, making informed judgements
Level 5 22-25 marks (mid-point 24) Good analysis and good evaluation	Good throughout the answer with few errors and weaknesses	Good application to issues Good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning	Good with a clear final judgement
Level 4 17-21 marks (mid-point 19) Good analysis but limited evaluation OR Reasonable analysis and reasonable evaluation	Good throughout the answer with few errors and weaknesses Good throughout much of the answer with few errors and weaknesses	Good application to issues Good use of data to support answer Some good application to issues. Some good use of data to support answer	Relevant and precise with a clear and logical chain of reasoning Largely relevant and well organised with reasonable logic and coherence	Limited but showing some appreciation of alternative points of view Reasonable, showing an appreciation of alternative points of view
Level 3 10-16 marks (mid-point 13) Reasonable answer, including some correct analysis but very limited evaluation	Satisfactory but some weaknesses shown	Reasonable application to issues Reasonable use of data to support answer	Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present	Superficial, perhaps with some attempt to consider both sides of the issue(s)
Level 2 4-9 marks (mid-point 7) Weak with some understanding	Limited and some errors are made	Partial application to issues with some errors Limited use of data to support answer	Partial but confused at times, lacking focus and development Limited logic and coherence	A very basic and simplistic attempt is made which is unsupported by analysis
Level 1 0-3 marks (mid-point 2) Very weak	Weak with a number of errors	Little, if any, application to issues No use of data to support answer	Poor and lacking clarity and focus	No relevant evaluation

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.
- An** 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.

QUALITY OF WRITTEN COMMUNICATION

Quality of Written Communication (QWC) will be assessed in Questions 04 and 08 only.

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

EITHER

Context 1

Total for this Context: 50 marks

01	Define the term ‘multiplier process’ Extract C (line 10).	[5 marks]
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<p>For an acceptable definition such as:</p> <ul style="list-style-type: none"> • an initial increase in spending leads to a larger increase in national income • a rise in investment spending (or government spending or exports) leads to a larger increase in GDP • a fall in investment spending (or government spending or exports) leads to a larger reduction in national income • a change in spending leads to a larger change in national income • a change in spending results in a larger change in income. • When an initial increase in aggregate demand (or component of AD) results in a larger increase in aggregate demand (or, allow, a larger increase in growth) 	5 marks
<p>Full marks should be awarded to a candidate who demonstrates a clear understanding of the term multiplier process even if the definition is not exactly the same as the acceptable examples quoted above.</p> <p>NB: Full marks can also be awarded for an accurate definition of the local multiplier.</p>	

If the definition is inaccurate or incomplete, award a maximum of 4 marks which may be broken down, for example, as follows:

A reasonable numerical example, such as ‘if an increase in investment of £100m leads to a rise in national income of £300m, the multiplier is 3’.	4 marks
For a valid explanation of the multiplier process that does not contain a precise definition.	Up to 4 marks
<p>An initial increase/decrease in spending leads to an increase/fall in national income (Does not state that the change in income is larger than the initial change in spending).</p> <p>OR</p> <p>Shows the effect of an injection (or increase/decrease in spending) on the economy</p>	2 marks
Although this is not on the Specification, if a candidate quotes a valid formula for the multiplier such as $1/(1-MPC)$ or $1/MPS$.	2 marks
More spending leads to more jobs.	1 mark
One person’s spending is another person’s income.	1 mark

Maximum of 4 marks if the definition is incomplete or inaccurate

MAXIMUM FOR PART 01: 5 MARKS

02 Using **Extract A**, identify **two** significant points of comparison between public sector investment and borrowing over the period shown. **[8 marks]**

Award up to 4 marks for each significant point made.

Identifies a significant point of comparison. Makes accurate use of the data to support the comparison identified. Unit of measurement given accurately.	4 marks
Identifies a significant point of comparison. Makes use of the data to support the comparison identified. However, only one piece of data is given when two are needed and/or no unit of measurement is given and/or the unit of measurement is inaccurate and/or the wrong date is given.	3 marks
Identifies a significant point of comparison. No correct use of data to support the comparison identified.	2 marks
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the feature identified. Unit of measurement given accurately.	1 mark

If a candidate identifies more than 2 significant points of comparison, reward the best two.

The valid points include:

- public sector investment and borrowing both peaked in 2009. Public sector investment peaked at £52.98 billion whereas public sector borrowing peaked at £156.21 billion.
- public sector investment was lowest in 2003 whereas public sector borrowing was lowest in 2006. The lowest figure for public sector investment was £15.06 billion whereas lowest figure for public sector borrowing was £32.17 billion.
- investment and borrowing were both higher at the end of the period than at the start of the period. Investment was £15.06 billion at the start of the period and £28.96 billion at the end of the period. Borrowing was £34.89 billion at the start of the period and £121.04 billion at the end of the period.
- the range of values for public sector investment was lower than the range for public sector borrowing. The difference between highest and lowest figures for public sector investment was £37.92 billion whereas the range for public sector borrowing was £124.04 billion.
- investment was always lower than borrowing. For example, the smallest difference between them was in 2006 when investment was £8.38 billion below borrowing.
- the largest increase in public sector investment and in public sector borrowing was between 2008 and 2009. Public sector investment increased by £14.37 billion whereas public sector borrowing rose by £87.21 billion.
- the largest decrease in public sector investment was between 2009 and 2010 whereas the largest decrease in public sector borrowing was between 2010 and 2011. Public sector investment fell by £12.86 billion between 2009 and 2010 whereas public sector borrowing fell by £28.17 billion between 2010 and 2011.
- There is a positive correlation between investment and borrowing, supported by the use of relevant figures

MAXIMUM FOR PART 02: 8 MARKS

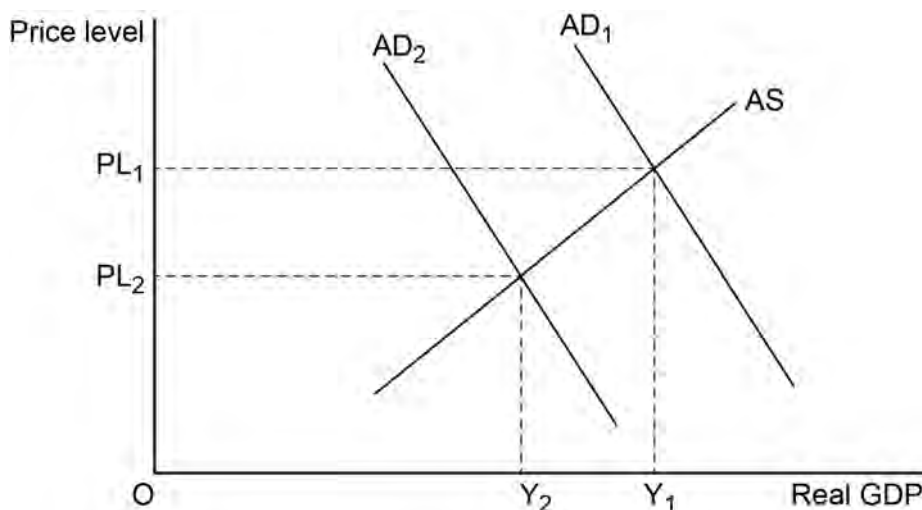
03 Extract B (lines 4 to 6) states: ‘The Government blames external shocks, such as the ongoing crisis in the eurozone, and the slowdown in growth in America and China for the weak recovery of the UK economy.’

With the help of an appropriate diagram, explain why low growth in the rest of the world is likely to affect the recovery of the UK economy.

[12 marks]

The anticipated response for the diagram:

To illustrate the effect of low growth in the rest of the world, it is expected that good candidates will shift the AD curve to the left to show the impact of a fall in the demand for UK exports. **Marks can only be awarded for the diagram if there is at least some valid explanation linked to ‘low growth in the rest of the world’.**



Breakdown of the marks for the diagram

Axes labelled (allow on the vertical axis: Inflation or PL or £ but not Price or P; allow on the horizontal axis: Real GDP, GDP, National Output, Output or Y but not Quantity or Q). Original AD (and AS curve) labelled correctly. Dotted lines and showing the original price level and level of real GDP (PL1 Y1).	1 mark
An accurately–drawn shift of the AD curve to the left.	2 marks
Lines drawn from the new equilibrium and labels such as PL ₂ and Y ₂ .	1 mark
Any other relevant feature of the diagram, eg if the candidate includes the LRAS on their diagram they might show the negative output gap.	1 mark per feature up to a maximum of 2 marks

Note:

- (i) To earn the first mark in the grid above, all three listed tasks must have been completed correctly.
- (ii) For the task of labelling the equilibrium points, but not the axes, any labels are acceptable, for example: PL and Y, A and B, P and Q.

Up to a MAXIMUM of 4 marks for the diagram

The anticipated written response:

Define external shock, recovery, GDP, exports, aggregate demand, unemployment or any other <i>relevant</i> term.	<p style="text-align: center;">1 mark per definition Up to a maximum of 2 marks</p>
<p>For the explanation, award 2 marks for each logical link in the chain of reasoning, for example:</p>	
A slowdown in the world economy means that the demand for UK exports falls (2 marks) , exports are a component of AD and hence AD falls (2 marks) , as a result firms cut back on production (2 marks) and this leads to job losses and rising unemployment (2 marks) . Falling incomes in the export sector will have a downward multiplier effect (2 marks) leading to a fall in consumer spending which reduces output and incomes in other sectors of the economy (2 marks) . The problems in the eurozone are particularly significant for the UK because around 40% of UK exports are sold to the eurozone economies (2 marks) .	<p style="text-align: center;">Up to 10 marks</p>
<p>Explanations similar to the above might also start by saying that the difficulties in the world economy might lead to a fall in consumer and/or producer confidence in the UK (2 marks) leading to a fall in aggregate demand/consumption/investment (2 marks). The likelihood of a fall in exports may or may not be mentioned. Similarly, some candidates might begin by asserting that there will be a fall in inward direct investment into the UK economy (2 marks). Each link in the logical chain of reasoning should be rewarded BUT the same link must only be credited once.</p> <p>Marks should also be awarded to candidates who explain possible accelerator effects of the initial fall in aggregate demand and the implications for the recovery of the UK economy.</p>	

If a candidate argues that slow growth in the rest of the world will reduce the ‘rate of growth’ of UK exports, they can be rewarded for a diagram that shows a rightward shift in the AD curve. However, as part of their explanation, they must state that the increase in AD is less than it would have been if the slowdown in the world economy hadn’t occurred.

Note: Do NOT award marks for simply describing what the diagram shows

Up to a MAXIMUM of 10 marks for the written explanation

MAXIMUM FOR PART 03: 12 MARKS

04 Extract C (lines 1 and 2) states that ‘The weak recovery of the UK economy has led to renewed demands for a boost to investment in the infrastructure of the UK economy.’

Using the data and your economic knowledge, assess the likely consequences of increased spending on infrastructure for the performance of the UK economy.

[25 marks]

It is anticipated that good answers will analyse the likely impact of increased spending on infrastructure on each of the main macroeconomic policy objectives. Good candidates are likely to discuss both the demand-side and supply-side consequences and assess both the short-run and long-run effects.

For this question, an answer should be limited to a maximum of 13 marks if there is no evidence of evaluation.

A maximum of **21 marks** may be awarded if there is no explicit use of the data, eg through the use of quotes or referring explicitly to the extracts.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>(mid-point 24 marks)</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>(mid-point 19 marks)</i>
Level 3	Reasonable answer, including some correct analysis <u>but</u> very limited evaluation	10 to 16 marks <i>(mid-point 13 marks)</i>
Level 2	Weak with some understanding	4 to 9 marks <i>(mid-point 7 marks)</i>
Level 1	Very weak	0 to 3 marks <i>(mid-point 2 marks)</i>

Introduction	<ul style="list-style-type: none"> explain what is meant by infrastructure and give examples identify the main macroeconomic policy objectives/performance explain what is meant by a ‘weak recovery’ provide some background to the current state of the UK economy and link spending on infrastructure to the recovery of the UK economy.
Developing the response to the question: (Application)	<p>Credit for application can be given for relevant application of economic theory, use of the data and the candidate’s own knowledge of relevant aspects of transport. Examples might include:</p> <ul style="list-style-type: none"> use of the statistical data in Extract A that shows investment by the government and provides a general indication of changes in public spending on infrastructure drawing on the prompts in Extract B paragraph 1 regarding the recent performance of the UK economy and some possible causes of the weak recovery

	<ul style="list-style-type: none"> • use of the prompts in Extracts B and C regarding possible benefits of spending on infrastructure • drawing on the prompts in Extract C (lines 7 and 8) regarding possible implications for tax and government borrowing • drawing on the prompts in Extract C (lines 13 and 14) regarding possible costs of spending on infrastructure <p>Some examples of relevant economic concepts and principles that might be applied to this question include: the economic cycle, aggregate demand, fiscal policy, demand management and supply-side performance.</p>
<p>Developing the response to the question: (Analysis)</p>	<ul style="list-style-type: none"> • developing a chain of reasoning to explain the short-run demand-side consequences of spending on infrastructure upon the growth in real GDP • developing a chain of reasoning to explain the short-run consequences of spending on infrastructure upon employment/unemployment • analysis of the multiplier effect of spending on the infrastructure • developing a chain of reasoning to explain the possible effects on inflation • developing a chain of reasoning to explain the possible effects on business costs and competitiveness • developing a chain of reasoning to explain the possible effects on the balance of payments in both the short run and the long run • developing a chain of reasoning to explain the possible effects on the underlying trend rate of economic growth • developing a chain of reasoning to analyse the possible impact on the budget balance • analysis of the evidence in the extracts and use of relevant diagrams
<p>Evaluation</p>	<ul style="list-style-type: none"> • the short-run benefits of infrastructure spending for generating recovery and creating jobs • possible adverse effects on inflation but assessed in relation to the current state of the economy and the degree of spare capacity • benefits of infrastructure spending on long-run growth and the supply-side performance of the economy • short-run versus long-run implications for external trade and the balance of payments • infrastructure spending and the need to rebalance the UK economy • the budget balance and methods of financing spending on infrastructure projects • possible implications for taxation, other forms of government spending and questions of equity • the impact on the economy depends on the actual project, eg spending on transport might have very different effects from building new houses • use of the data in the extracts to support the judgements made • an overall assessment of the likely impact of spending on infrastructure on the performance of the UK economy in both the short run and the long run.

Examiners should note that credit can be given for basic evaluation if a candidate simply identifies some of the pros and cons of increased spending on infrastructure. Basic evaluation (and good analysis) would allow the answer to achieve low Level 4. Stronger evaluation is provided by candidates who are able to support arguments both for and against increased spending on infrastructure by the use of evidence and/or sound economic analysis.

USE THE DETAILED LEVELS MARK SCHEME ON PAGES 4 & 5 WHICH OFFERS FURTHER GUIDANCE

MAXIMUM FOR PART 04: 25 MARKS

OR

Context 2

Total for this Context: 50 marks

05	Define the term 'capital stock' Extract F (line 11).	[5 marks]
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<p>For an acceptable definition such as:</p> <ul style="list-style-type: none"> • the value/amount of plant, machinery and buildings that exist at a point in time • capital goods include items such as machinery, vehicles and buildings. The capital stock is the monetary value (or amount) of such goods that exist at a given point in time • capital goods are goods that are used to make other products. The capital stock is the value/amount of such goods that an economy (or firm) has. (i.e. allow a phrase that indicates that the candidate has some understanding of what is meant by 'stock' even if it isn't a technical definition of the term) 	5 marks
<p>Full marks should be awarded to a candidate who demonstrates a clear understanding of the term capital stock even if the definition is not exactly the same as the acceptable examples quoted above.</p>	

If the definition is inaccurate or incomplete, award a maximum of 4 marks which may be broken down, for example, as follows:

Capital goods are goods that are used to make other products, ie there is no attempt to define what is meant by 'stock'.	4 marks
Capital is a factor of production	3 marks
It is the amount of (or increase in) investment in the economy OR Investment is the change in the capital stock	3 marks
The amount of capital that exists at a point in time, ie defines 'stock' but not 'capital'.	2 marks
The value of assets that a business/economy owns	2 marks
Examples of capital goods such as: buildings, machinery, computers, vehicles, tools, tractors, roads, rail network, infrastructure. Do NOT award any marks for giving examples of financial capital such as: shares, bonds, savings.	1 mark per example up to a maximum of 2 marks

Maximum of 4 marks if the definition is incomplete or inaccurate

MAXIMUM FOR PART 01: 5 MARKS

06 Using **Extract D**, identify **two** significant points of comparison between the change in real GDP per worker in the UK and the change in real GDP per worker in the US over the period shown.

[8 marks]

Award up to 4 marks for each significant point made.

Identifies a significant point of comparison. Makes accurate use of the data to support the comparison identified. Unit of measurement given accurately. The candidate must acknowledge at least once within their answer that the data is in index form.	4 marks
Identifies a significant point of comparison. Makes use of the data to support the comparison identified. However, only one piece of data is given when two are needed and/or no unit of measurement is given and/or the unit of measurement is inaccurate and/or the wrong date is given.	3 marks
Identifies a significant point of comparison. No correct use of data to support the comparison identified.	2 marks
Identifies a significant feature of one data series but no comparison is made. Makes use of the data to support the feature identified. Unit of measurement given accurately.	1 mark

If a candidate identifies more than 2 significant points of comparison, reward the best two.

The valid points include:

- the index of real GDP per worker in the UK peaked in 2007 at 100 whereas the index of real GDP per worker in the US peaked in 2011 at 105
- the indices of real GDP per worker in the UK and in the US were both at their lowest value in 2003. In the UK, the lowest value of the index was 93 whereas the lowest value of the index in the US was 95
- the index of real GDP per worker in both the US and the UK was lower at the start of the period than at the end of the period. In the UK the index rose from 93 to 97 whereas in the US the index rose from 95 to 105
- the range for the index of real GDP per worker was greater for the US than for the UK. The range for the US was 10 index points (95 to 105) whereas the range for the UK was 7 index points (93 to 100)
- the index of real GDP per worker has risen every year in the US (except between 2007 and 2008) whereas the index of real GDP per worker in the UK rose up until 2007 but declined between 2007 and 2009. For example, the index of real GDP per worker in the US rose from 95 to 105 between 2003 and 2011 whereas in the UK it rose from 93 to 100 between 2003 and 2007 but fell from 100 to 96 between 2007 and 2009.

NB Do **NOT** award any marks for 'horizontal comparisons' such as 'real GDP per worker was higher in the US than in the UK for every year except 2007'. Such comparisons are wrong.

MAXIMUM FOR PART 02: 8 MARKS

07	<p>Extract F (lines 14 and 15) states that ‘The US, unlike the UK, has not experienced a fall in labour productivity during the past five years’.</p> <p>Explain two policies that the government could adopt to try to increase labour productivity in the UK.</p> <p style="text-align: right;">[12 marks]</p>
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The anticipated written response:

Define labour productivity, investment, investment in human capital, government policy, supply-side policies or any other <i>relevant</i> term.	1 mark per definition Up to a maximum of 2 marks
Award 2 marks for identifying a valid policy and then award 2 marks for each logical link in the chain of reasoning, for example:	
Government spending to finance education and training (2 marks) will help to improve the skills of the labour force (2 marks). Skilled workers are likely to be more flexible and able to carry out a wider range of tasks; (2 marks) poor quality output and mistakes are reduced and so there is less wastage (2 marks). Education and training, which increases the flexibility of the labour force, may make it easier for firms to implement changes in working practices (2 marks) which lead to a rise in productivity. Education and training allow workers to adapt to new technologies (2 marks) which often lead to greater efficiency (2 marks).	Up to 8 marks
Reductions in corporation tax (2 marks) increase the incentive to invest OR leave firms with more funds to invest (2 marks). New machines are likely to be more efficient (incorporate the latest technology) (2 marks) and an increase in the capital stock (more machines per worker) (2 marks) will increase output per worker (2 marks) (but don't allow 'increase productivity' as this is just repeating the question)	Up to 8 marks
Grants, subsidies and/or tax incentives to help finance investment in physical capital	Up to 8 marks
Grants, subsidies and/or tax incentives to help finance investment in research and development.	Up to 8 marks
Allow a cut in income tax (or increase in the minimum wage) provided the candidate links this with the incentive for people to work harder or longer hours. Do NOT reward a cut in income tax (or increase in the minimum wage) if it is linked with the incentive to accept work, i.e. reducing voluntary unemployment.	Up to 8 marks
Using either monetary or fiscal measures to increase aggregate demand, picking up on Extract F (lines 6 to 9) but only allow this if there is a plausible explanation of why an increase in AD is likely to be accompanied by an increase in output per worker (NOT just production).	Up to 8 marks

NB Don't reward 'leading to an increase in output per worker' and/or 'increases efficiency' more than once.

Award up to 4 marks for the use of relevant diagrams (2 marks for the initial labelling of the axes/curves, 2 marks for information shown). Do NOT reward a diagram that shows the consequence of an increase in productivity, i.e. a diagram showing a rightward shift in the LRAS curve or showing a rightward shift in the PPC boundary should not be credited. However, a diagram showing a fall in interest rates leading to an increase in investment should get credit.

The policies identified above are examples of appropriate policies but any other valid **government policy** should be rewarded.

If a candidate attempts to explain more than two **policies**, reward the best two explanations.

Up to a maximum of 10 marks for a candidate who only explains one policy

MAXIMUM FOR PART 03: 12 MARKS

08 Extract E (line 10) states that ‘in the long run, productivity growth is the key to prosperity’.

Using the data and your economic knowledge, assess the likely impact of a sustained period of low productivity growth on the performance of the UK economy. **[25 marks]**

It is anticipated that good answers will analyse the likely impact of low productivity growth on each of the main macroeconomic policy objectives. Good candidates are likely to conclude that, although a period of low productivity growth may have some short–run benefits, in the long run it will almost certainly damage the performance of the economy.

For this question, an answer should be limited to a maximum of 13 marks if there is no evidence of evaluation.

A maximum of **21 marks** may be awarded if there is no explicit use of the data, eg through the use of quotes or referring explicitly to the extracts.

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <i>(Mid-point 24 marks)</i>
Level 4	Good analysis <u>but</u> limited evaluation OR Reasonable analysis <u>and</u> reasonable evaluation	17 to 21 marks <i>(Mid-point 19 marks)</i>
Level 3	Reasonable answer, including some correct analysis <u>but</u> very limited evaluation	10 to 16 marks <i>(Mid-point 13 marks)</i>
Level 2	Weak with some understanding	4 to 9 marks <i>(Mid-point 7 marks)</i>
Level 1	Very weak	0 to 3 marks <i>(Mid-point 2 marks)</i>

Introduction	<ul style="list-style-type: none"> explain what is meant by ‘a sustained period of low productivity growth’ identify the main macroeconomic policy objectives/performance productivity in the UK and other countries.
Developing the response to the question: (Application)	<p>Credit for application can be given for relevant application of economic theory, use of the data and the candidate’s own knowledge of the impact of changes in productivity in the UK or elsewhere. Examples might include:</p> <ul style="list-style-type: none"> use of the statistical data in Extract D, that shows productivity growth in the UK, US and the G7 economies drawing on Extract E paragraph 1 regarding productivity levels in the UK, US and the G7 economies use of the prompts in Extract E paragraph 2 regarding the impact of low productivity growth on employment in the UK since the depths of the recession drawing on the prompts in Extract E paragraph 3 regarding the long-run benefits of productivity growth

	<ul style="list-style-type: none"> drawing on the prompts in Extract F paragraph 1 regarding the impact of productivity on spare capacity and inflation drawing on the prompts in Extract F paragraph 4 regarding the effects of a fall in productivity on employment and growth. <p>Some examples of relevant economic concepts and principles that might be applied to this question include: competitiveness, structural unemployment, cost–push inflation and the long–run trend rate of economic growth.</p>
Developing the response to the question: (Analysis)	<ul style="list-style-type: none"> developing a chain of reasoning to analyse the short–run impact of low productivity growth on employment/unemployment developing a chain of reasoning to analyse the long–run impact of low productivity growth on employment/unemployment developing a chain of reasoning to analyse the impact of low productivity growth on the long–run trend rate of economic growth developing a chain of reasoning to analyse the impact of low productivity growth on inflation an explanation of the impact of productivity on competitiveness developing a chain of reasoning to analyse the impact of low productivity on UK trade and the balance of payments developing a chain of reasoning to explain how low productivity growth might affect the budget balance and the ability of the government to fund public services analysis of the evidence in the extracts and use of relevant diagrams.
Evaluation	<ul style="list-style-type: none"> the benefit of low productivity growth for job creation in the UK during a period of very weak recovery, perhaps contrasting the extent of job losses in previous downturns, or the situation in the US, with the current situation in the UK the likelihood that if low productivity growth persists, it will damage the competitiveness of the UK economy and hence adversely affect employment the view that although low productivity growth will affect long-run trend growth, in the short run, economic growth in the UK is more likely to be affected by aggregate demand whether or not low productivity growth has much significance for inflation in the UK or is it aggregate demand, world commodity prices etc. that are the key determinants of inflation the view that the external trade position of the UK depends more on the exchange rate and growth in other economies than UK productivity growth use of the data in the extracts to support the judgements made regarding the impact of productivity growth on the performance of the economy an overall assessment of the likely impact of low productivity growth on the performance of the UK economy in both the short run and the long run.

Examiners should note that credit can be given for basic evaluation if a candidate simply identifies some costs and benefits of low productivity growth for the performance of the UK economy. Basic evaluation (and good analysis) would allow the answer to achieve low Level 4. Stronger evaluation is likely to be provided by candidates who come to an overall conclusion that is fully supported by the use of evidence and sound economic analysis.

**USE THE DETAILED LEVELS MARK SCHEME ON PAGE 5
WHICH OFFERS FURTHER GUIDANCE**

MAXIMUM FOR PART 04: 25 MARKS