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Mark Scheme (Results)

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GCE Economics
(6EC02) Paper 01

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Question Number	Answer	Mark
1(a)(i)	2 of the following reasons (2 + 2 marks) and 2 marks for 1 example From figure 1. Ensure that inflation is accurately measured (2 marks) Avoiding potential biases that might develop over time such as • the development of new goods and services (2 marks) • the change in tastes (2 marks) • the switching away from goods and services that have risen in price (2 marks) Ensures long term trends are reflected (2 marks) Sound definition of CPI (2 marks) Maximum 4 marks if no example of a trend or change from fig 1	**(6)**

Question Number	Answer	Mark
1(a)(ii)	KAA 10 marks Connection between oil and aggregate supply e.g. oil is general production cost which increases when oil price rises(2 marks) AD/AS diagram showing leftwards/upwards shift in aggregate supply (4 marks max), made up from: axes labelled (1 mark), equilibria labelled (1 mark), AD/AS lines labelled (1 mark) and correct shift of AS to left (1 mark). (Note: no marks to be awarded for the diagram if the shift is incorrect or if AD/AS are wrong way round or labelled incorrectly even if axes are labelled correctly) Fall in real output described (2 marks) and rise in price level (2 marks) described. Accept also the explanation that the total value of an oil importing country's imports might rise and so AD shift to the left. Above point is not really valid in the context of extract 1 -i.e. inflation above target so only half marks should be given for analysis (1 marks). AD/AS diagram showing leftwards/downwards shift in aggregate demand (2 marks Max), made up from: axes and equilibria (1 mark), AD/AS lines and correct shift of AD to the left (1 mark). Fall in real output described (1 mark) and fall in price level described (1 marks) in writing.	**(10)**

Question Number	Answer	Mark
1(a)(iii)	KAA 8 marks (maximum 6 marks for KAA if data NOT used) Two points from the Extracts 1 or 2 or Figure 3. (2 x 4 marks) Identify each point (2 marks) and further explanation of how this factor **might influence the price level**, accept use of AD/AS diagram (2 marks) From Extracts 1 or 2 or Figure 3 - Expectation that inflation will fall below target (line 8) - Rise in Vat to 17.5% - a sharp increase in oil prices - sharp depreciation of sterling (or exchange rates) - fall in consumer spending - fall in investment spending - the build-up of spare capacity in the economy as factories and equipment lie idle - unemployment or employment level changing Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include: - Relative significance/importance of two factors - Average earnings in 2009 are roughly in line with target inflation of 2% (Figure 2) - Confidence levels (concern over threat of double dip recession) - Concern still over extent of bad debts - Global recovery seems to be underway - Expansive fiscal policy by the government is still being implemented and full effects are yet to be seen - Stock market has risen very rapidly since QE started suggesting an asset price bubble (financial markets) - Interest rates are already at a historical low - Uncertainty over the full effect of Quantitative Easing - Clearing Banks are not passing on the lower rate - Britain seems to be one of the last countries to be emerging from the recession - Elasticity of AS - reliability of statistics: many are revised later such as GDP - Unemployment is a lagging indicator and may, therefore, be of little use - Reference to conflicting unemployment data - Oil prices are very volatile: increase in price might be temporary - Difficulty of estimating amount of spare capacity in the economy	(12)

Question Number	Answer	Mark
1(b)(i)	Inverse or negative relationship or trade off or if one is high the other is low, (2 marks) Explanation of the reason why this might be the case (2 x 2 or 1 x 4 marks) such as • when nearing full employment or capacity the economy begins to overheat and prices rise (or cost push inflation from wage-price spiral) • Keynesian AS curve is upward sloping • use of an AD/AS diagram or Phillips curve (up to 2 marks for diagrams) • Phillips Curve explained • reverse analysis i.e. if unemployment is rising, then workers have less bargaining power and earnings growth will be slower • incentive effect Alternatively, there is no relationship (2 marks) Explanation of the reason why this might be the case (2 x 2 or 1 x 4 marks) such as • If no relationship explain that the Phillips curve is unrealistic • Any plausible analysis	**(6)**

Question Number	Answer	Mark
1(b)(ii)	EITHER If inverse relationship (Phillips curve) is supported, explain identification of curve or trade off (2 marks) using data (2 marks) such as • Inverse 1980 to 1985 • Inverse 1989 to 1993 • Inverse 1999/2000 to 2009 OR If relationship is denied, explain that points are random or don't follow a pattern (2 marks) using data (2 marks) such as • 1989 to 1993 at a different angle from 1993 to 1999 • 1999/2000 to 2009 at a different angle from 1993 to 1999 • Cluster of points in 2000 to 2008 Accept answers supporting a positive or direct relationship e.g. 1993 to 1999 Award Candidates 4 marks if they point out the question is about earnings growth and unemployment whereas the data is on price inflation	**(4)**

Question Number	Answer	Mark
1(c)	KAA 8 marks Either meaning of a sharp depreciation of the pound or definition of current account (max of 2 marks) Possible definitions include: • a pound that is falling or has fallen in value against another major currency • a pound that buys less foreign currency than it used to • accept current account as imports & exports Explanation (2 x 4 marks). These might include: • Exporters will be able to sell their goods more cheaply (2) and so increase their total revenue or total exports rise (2) • Imports into the UK become more expensive (2) so less are demanded at the higher price and there is a fall in expenditure on imports (2) Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Comments might include reference to • In the short run manufacturing orders will not change as they are struck at a fixed price for a number of months, but in the long run change should take effect • Recognition that manufacturing exports account for a sizeable amount (approximately half) of UK's exports • Supply of UK exports may be inelastic • Price elasticities of demand for imports/exports • Industries have different elasticities of demand and supply • Fluctuations in the value of the pound may undermine long term customer and supplier relationships • Extent of the depreciation • Increase of cost from rising import costs (such as oil) and the detrimental effect on domestic demand for manufacturers' products • Manufacturing skills have been lost and therefore it will not be easy for the sector to grow quickly • In some industries (where low cost is important) British manufacturers are unable to compete unless the pound falls dramatically • Some industries will be unaffected because they have relatively few substitutes • investment decisions and flows • relative importance of trade to manufacturing sector **Quality of written communications will be assessed in this question based on the candidate's ability:** • To present an argument and conclude on the basis of that argument	

		To organise information clearly and coherently	
		• To use economic vocabulary appropriately	**(12)**
		• To use grammar, spelling and punctuation appropriately	

Level	Mark	Descriptor
Level 3	9-12	2 convincing points with at least one evaluative point
Level 2	5-8	2 convincing points with no further analysis or explanation, or 1 convincing point with some good analysis but no evaluative point; 1 or 2 less-convincing point with some evaluation
Level 1	1-4	Identification of relevant points with or without brief evaluative keywords

Question Number	Answer	Mark
1(d)	KAA 18 marks Definitions and/or diagram up to 6 marks for: • Fiscal policy – the government's manipulation of its spending and taxation in order to affect aggregate demand (2 marks) • Supply-side policy – actions by government designed to promote market forces in order to increase economic growth or shift AS/PPF curve out (2 marks) • Rate of unemployment – the percentage of the workforce that is not currently employed (2 marks) • <u>Reward Implicit understanding of definitions</u> • Reference to data (2 marks) – implicit or explicit • 4 marks for <u>any appropriate</u> diagram: made up from: axes labelled (1 mark), equilibria labelled (1 mark), line(s) labelled (1 mark) and correct shift (1 mark). Explanations of at least two policies (up to a maximum of 12 marks); of which up to 6 marks each for two policies explained in depth, or up to 4 marks for three policies explained clearly. **Max 8 marks** if only two fiscal OR two supply side policies explained. Policies might include: • Reducing income tax • Increasing government spending • Increasing the national debt to fund the expansion in spending • Competition policy • Education and training • Reducing VAT or Corporation tax • Increasing subsidies or tax breaks, such as for capital investment or R&D Evaluation 12 marks (3 x 4 marks or 2 x 6 marks) • difficulty of keeping the growth of demand at the right level owing to time lags • difficulty of keeping the growth of demand at the right level owing to inaccurate data • concern about the ability of the government to repay its debt if it gets	

		too large	
		• crowding out of the private sector undermining the net impact of the investment	
		• credibility of the Phillips curve trade off	
		• significance of elasticities of AS or AD explained	
		• magnitude of boost	
		• size of the multiplier	
		• conflict of objectives e.g. possible inflation with fiscal	
		• evaluation of supply side policies, e.g. more uneven distribution of income	(30)
		Quality of written communications will be assessed in this question based on the candidate's ability:	
		• To present an argument and conclude on the basis of that argument	
		• To organise information clearly and coherently	
		• To use economic vocabulary appropriately	
		• To use grammar, spelling and punctuation appropriately	

Level	Mark	Descriptor
Level 4	25-30	2 or 3 convincing effects with at least two evaluative points (an evaluation point is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing effects with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing effects with no evaluative point; 1 or 2 less-convincing effects with some evaluation
Level 1	1-6	Identification of relevant effects with or without brief evaluative keywords

Question Number	Answer	Mark
2(a)(i)	Up to 2 marks for definition or explanation • cost of borrowing • price of money • income from savings deposited in a bank • return on deposits in high street banks • the interest payments on mortgages or credit cards or an overdraft • return on private loans made • Bank of England rate (not target rate) One reference to data from Figure 1 (2 marks)	**(4)**

Question Number	Answer	Mark
2(a)(ii)	KAA 6marks Definition of investment is an increase in the capital stock or the buying of capital goods (2 marks). Accept the buying of a factor of production that produces other goods and services Up to 6 marks for explanations e.g. 4 + 2 or 3 + 3, also reward diagrammatic analysis • Fall in interest rates reduces the cost of borrowing (2 marks) and so makes investment cheaper leading to more investment (2 marks) **OR** Rise in interest rates increases the cost of borrowing (2 marks) and so makes investment more expensive leading to less investment (2 marks) • Fall in interest rates leads to rise in consumption and therefore investment OR REVERSE(4 marks) • Rise in interest rates leads to the incentive for firms to save (2 marks) and therefore a fall in investment OR REVERSE (2 marks) • Reward other influences e.g. confidence, access to finance	**(6)**

Question Number	Answer	Mark
2(a)(iii)	KAA 8 marks Reference to data (2 marks) in Figure 2 e.g. house prices fell between April 2008 – July 2009 Note the title of the graph, allow any reasonable use of data, quarterly or annually. Maximum 6 marks for KAA if no data reference Other 6 marks awarded as follows: identification of negative wealth effect (2); explanation and analysis (4): e.g. fall in confidence; lower consumption; fall or less rapid rise in AD; resulting in fall in real output or slower rate of economic growth. Fall in prices so easier access for first time buyers/extension of demand. Maximum 4 marks unless developed into macroeconomic perspective. Credit answers analyse wider effects on the economy: e.g. impact on current account of balance of payments; or for impact on the price level; or for impact on unemployment. Explanation of transmission mechanism through to consumption or use of a graph to explain the slowing of growth or fall in output (4 marks) Credit effect of negative equity Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include: • Houses are a significant component of wealth and effect a large proportion of households in the UK which will therefore have a **major effect** in slowing down the recovery • Significance of elasticity of AS curve • Consumption is approximately 2/3 of aggregate demand which implies a strong inter-relationship • A fall might have a very large impact (more so than a slow down) and with bankruptcies/defaulting could lead to a large increase in supply and a further fall in house prices (and therefore AD) • Wealth effects take some time to trigger spending changes • Other factors may be more important in generating confidence such as the strength of the global economy's recovery • Regional differences in impact	(12)

Question Number	Answer	Mark
2(b)(i)	Candidates can give reasons for the fall and/or reasons for the rise in the household savings ratio. Mark as follows: 2 + 2 or 3 + 1 (1 mark identify + 1 or 2 for development.) • Degree of job security/ confidence • changes in house prices and/or share prices • interest rates paid by banks	(6)

	• savings schemes e.g ISAs; index-linked savings certificates • changes in incomes • credit should also be given for convincing points made about an ageing population requiring increased savings in the longer term as a result of the level of welfare benefit provided. 2 for reference to data	

Question Number	Answer	Mark
2(b)(ii)	KAA 10 marks Note that the definition of the rate of savings is given in Figure 3 so no marks are to be awarded for it. AD/AS diagram showing leftwards/downwards shift in aggregate demand (4 marks), made up from axes labelled (1 mark), equilibria labelled (1 mark), AD/AS labelled (1 mark), and correct movement of AD to the left (1 mark). (Note: no marks to be awarded for the diagram if the AD shift is incorrect or if AD/AS are wrong way round or labelled incorrectly even if axes are labelled correctly; max 3 marks if AS shifted but not valid explanation) Reference to Figure 3 (2 marks) State fall in price level (2 marks) and state fall in real output (2 marks).	(10)

Question Number	Answer	Mark
2(b)(iii)	KAA 8 marks Data reference to Figure 4 (2 marks) Maximum of 6 KAA if no reference to data Two factors identified and explained (4 + 2 or 3 + 3); • Government policy (2 policies could be 2 factors) • Higher investment (both foreign direct investment and domestic investment) • High levels of savings should lead to a fall in the cost of borrowing for industry • Innovation and/or the importing of new technology • Increase in human capital • Acceleration of migration from low value added sectors (such as agriculture) to high value added sectors (manufacturing) • Increase in efficiency and productivity • Inflation kept low • Export led growth • Weak or low valued currency encourages demand for exports • Availability of a cheap source of skilled labour • Access to cheap raw materials Reward use of diagrams in explanations; AD/AS or circular flow of income Also reward definition of economic growth (2 marks) e.g. an increase in either real and/or potential output (GDP)	(12)

Evaluation 4 marks (1 x 4 marks or 2 x 2 marks). Factors might include:
- consider time lag involved in investment
- the problem of rapidly rising wages in China
- prioritisation of factors
- the effect on the price level and output is determined by the relative elasticity of the AD and AS curves
- the state of the global economy and the Chinese government's drive to increase domestic consumption to replace faltering export demand
- Scale of each factor
- Rise of competitor nations

Question Number	Answer	Mark

2(c)	KAA 18 marks
	
	Objectives and/or diagram up to 6 marks for:
	• Definition of macroeconomic objectives as the main aims of the government to achieve improved economic welfare (for all the population) (2 marks)
	• Definition of Growth as an increase in either real and/or potential output (GDP) (2 marks)
	• Identification of any 2 other macroeconomic objectives that are adversely affected (2 marks maximum) such as
	   o Control of inflation (or price stability)
	   o A fair or equitable distribution of income and wealth
	   o An external policy objective such as satisfactory balance of payments (e.g. restoration of equilibrium or reduction of the deficit)
	   o Protection of the environment
	• 4 marks for any appropriate diagram: made up from: axes labelled (1 mark), equilibria labelled (1 mark), line(s) labelled (1 mark) and correct shift (1 mark).
	
	Explanation of at least two effects (up to a maximum of 12 marks); of which, up to 6 marks each for two effects explained in depth, or up to 4 marks for three effects explained clearly.
	
	• Inflation rising as full capacity is approached
	• Balance of payments position may deteriorate as incomes rise and more imports are demanded
	• Growth should result in a higher average standard of living, but may not deliver a more fair or equitable distribution of income and wealth as the rich tend to get rich faster than the poor do
	• Increased growth tends to lead to a deterioration of the environment from congestion and pollution
	
	Examples of recent evidence should be credited
	
	Evaluation 12 marks (3 x 4 marks or 2 x 6 marks)
	• significance of stage in trade cycle which the country is in and implications for elasticity of AS curve;
		(30)

- If it is supply side growth (rather than demand-side) then fewer conflicts with other objectives
- Initial state and stability of inflation/deflation
- The rate of actually growth in comparison to the growth of the productive capacity
- Proximity to full employment (full output)
- Full employment (or low unemployment) shouldn't conflict
- Short run unemployment from introduction of new technology
- An increase in AS tends to happen in the longer run
- Extent of domestic economy's capacity to meet rising demand (i.e. if economy can supply most wants)
- Extent of the country's international competitiveness
- Redistributive policies of the political part in power
- Extent of the effectiveness of environmental policies
- Extent to which the growth is in tertiary sector or in primary and secondary sectors
- Balance of payments position may improve if it is export-led growth
- Balance of payments position may improve if growth if generated through an increase in productivity (such as through investment) resulting in a shift in AS to the right
- Growth may lead to higher government revenues and scope to improve public transport as well as tax polluting old technologies
- Developed economies may employ green technology

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