



Mark Scheme (Results)

Summer 2014

Pearson Edexcel GCE
in Economics (6EC02) Paper 01R

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

Summer 2014

Publications Code US038583

All the material in this publication is copyright

© Pearson Education Ltd 2014

General Marking Guidance

- All candidates must receive the same treatment. Examiners must
- mark the first candidate in exactly the same way as they mark
- the last.
- Mark schemes should be applied positively. Candidates must be
- rewarded for what they have shown they can do rather than
- penalised for omissions.
- Examiners should mark according to the mark scheme not
- according to their perception of where the grade boundaries may
- lie.
- There is no ceiling on achievement. All marks on the mark
- scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded.
- Examiners should always award full marks if deserved, i.e. if the
- answer matches the mark scheme. Examiners should also be
- prepared to award zero marks if the candidate's response is not
- worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide
- the principles by which marks will be awarded and
- exemplification may be limited.
- When examiners are in doubt regarding the application of the
- mark scheme to a candidate's response, the team leader must be
- consulted.
- Crossed out work should be marked UNLESS the candidate has
- replaced it with an alternative response.

Question Number	Indicative content	Mark
1 (a) (i)	<p>KAA 6 marks</p> <p>Up to 2 marks for the explanation of the output gap as the difference between actual output and potential output.</p> <p>Up to two marks for reference to the extract showing explicit or implicit understanding of the nature of the gap</p> <ul style="list-style-type: none"> • explaining that the actual/current output (or GDP) is lower than the UK's potential/trend output. • Reward also the level of expenditure is lower than the capacity of the economy to produce. • Accept references such as "negative output gap" and "GDP 4% below its pre-crisis peak". <p>Up to 2 marks for diagram:</p> <p>Business cycle, AD/AS or PPF with output gap, axis and curves correctly labelled, award 2 marks. If one labelling error award 1 mark.</p>	(6)

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 4 marks</p> <p>Up to two marks for: Reference to the data: infrastructure (such as bullet train, new motorway, 15 stimulus projects in Japan some of which were investment)</p> <p>Up to two marks for: Increase in capital stock (2) or asset build –up or replacing depreciated assets (2) purchase of plant or machinery (2).</p>	(4)

Question Number	Indicative content	Mark
1 (a) (iii)	<p>KAA 8 marks</p> <p>Up to 4 marks for each cause identified (2) and explained/applied (2).</p> <p>Award two causes only</p> <p>Causes may include:</p> <ul style="list-style-type: none">● Business confidence or start of the recovery/ fear of a recession.● Risk.● Influence of government and regulations.● Unwillingness of banks to lend to business.● Weak or unenforceable patent laws.● Increased competition from abroad.● A strong pound or fluctuating exchange rate.● Reduction in investment grants/incentives/tax breaks <p>Use of data (2) £24 billion reduction in "research and innovation."</p>	(8)

Question Number	Indicative content	Mark
(b) (i)	<p>KAA 8</p> <p>Up to 4 marks for diagram demonstrating rightward shift of AD and/or rightward shift of AS; correct shifts in line(s) (1), lines labelled (1), axes labelled (1), equilibria labelled (1). Note diagrams where the line shift is incorrect receive no marks. If one line shift is correct and another is wrong then award 2 marks assuming the rest of the diagram is labelled correctly.</p> <p>Up to 4 marks for identification (2) and explanation (2) of effects. Award a maximum of 2 effects.</p> <ul style="list-style-type: none"> • Higher spending in UK universities (2) leading to higher output and higher employment. (2) • Educating overseas students is an export. Increased exports leads to increased AD (2) leading to higher output and employment. (2) • Although it is unlikely to shift AS in short run reward arguments such as the best students will be able to come to the UK (2) so UK has more successful research and innovation leading to higher productivity and employment. (2) <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> • Long run (AS) and short run (injection into circular flow AD) impacts • Relative importance of more foreign students being able to come to UK. May not have a great impact on UK research and innovation • Size of injection into AD is not large in comparison to other determinants of AD • Other factors may be more important with example(s) • Overall figures for students are down according to the extract. • Overseas students are likely to return home after their studies, increasing AS of their countries rather than the UK. 	(12)

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

Question Number	Indicative content	Mark
(b) (ii)	<p>KAA 8 marks</p> <p>2 mechanisms up to 4 marks each (2 x 4 marks). 2 marks for identification and 2 marks for the explanation of each mechanism.</p> <ul style="list-style-type: none">• Consumption is increased (2) as low interest rates reduce savings, increase loans, hire purchase, mortgage interest payments (2)which increases AD• Investment is increased (2) as lower interest rates make borrowing cheaper and/ or rewards are reduced (2) which increases AD and/or AS• Increased investment (2) or reduced cost of borrowing leads to increased international competitiveness and higher exports (2) which increases AD• Reward exchange rate arguments such as interest rates staying low keeps the £ weak (2) and so make exports cheaper and imports more expensive (2) <p>Reward up to 2 marks for a diagram as part of an explanation of one mechanism</p>	(8)

Question Number	Indicative content	Mark
<p>* (b) (iii) QWC i-iii</p>	<p>KAA 8</p> <p>Up to 4 marks for explanation of each impact. Reward a maximum of two impacts</p> <ul style="list-style-type: none"> • increased public sector hiring leads to greater number of government workers which leads to greater G (2) and therefore: <ul style="list-style-type: none"> ○ Increased AD and increased real output (2) ○ Increased AD and therefore higher price level (2) ○ Increase in budget deficit or national debt (2) ○ Potentially higher taxes (2) • Reference to impact on productivity (2) and implication (2) • reduces unemployment (2) and therefore(2) <p>Reward up to 2 marks for a diagram as part of an explanation of the transmission mechanism</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2)</p> <ul style="list-style-type: none"> • increased government debt cannot continue indefinitely ('unsustainable') unless it generates greater tax revenues from growth • fiscal austerity and low growth • Crowding out • Impact on monetary policy • Relative importance of each impact • Magnitude, with some reference to "unsustainable" <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • 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 	<p>(12)</p>

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

Question Number	Indicative content	Mark
(c) QWC i-iii	<p>KAA 18</p> <p>Up to 6 marks for:</p> <ul style="list-style-type: none"> ● Defining supply side policies as measures taken by a government to increase productivity or increase long run aggregate supply. (2) ● A brief explanation of “the great stagnation” (2) ● Defining economic growth as a measure of the increase in either real or potential GDP. (2) ● Use of data. (2) ● A diagram showing economic growth, either AD/AS or PPF. (2) <p>Policies, up to 12 marks (3 x 4 marks or 2 x 6 marks);</p> <ul style="list-style-type: none"> ● Corporation tax reductions increasing the incentives for firms to invest. ● Increased or improved education and or training could increase the productivity of the workforce. ● Changing the level of benefits and/or income tax to incentivise employment would increase the output per worker of those in work and increase the number of workers in work. ● Cutting cost of bureaucracy/regulations in firms to increase productivity. ● Financial support for investment, possibly linked to regional policy. ● Privatisation of remaining public sector industry. Relevant examples help support this factor. ● Infrastructure investment such as roads or broadband reducing industry’s costs or improving access to market. ● Trade union reform ● Changes to minimum wages ● Reduction in unemployment benefits ● Reduction in income tax ● Reward other appropriate supply side policies. <p>Reward use of diagrams (maximum of 2 marks each if develop analysis)</p>	(30)

	<p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks);</p> <p>Comments might include reference to</p> <ul style="list-style-type: none"> • Time it takes for supply side policies to take effect • effectiveness of supply side policies such as infrastructure investments/ education at delivering sustainable growth • Privatisation may lead to private monopolies and less efficiency and lower economic growth • Business confidence may affect investment • Cut in income tax designed as an incentive to work and invest may be ineffective if workers use it as an opportunity to work less for the same income • Cut in corporation tax ineffective if companies use the cut in corporation tax to increase dividends • Increase in UK taxation elsewhere may have an effect on incentives • Impact on inequality • Impact on budget deficit. <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> • 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 policies with at least two evaluative points
Level 3	19-24	2 or 3 convincing policies with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing policies with no evaluative point; 1 or 2 less-convincing policies with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

Question Number	Indicative content	Mark
2 (a) (i)	<p>KAA 4 marks</p> <p>Accept any 2 from</p> <ul style="list-style-type: none"> • Trade in goods (2) • Trade in services (2) • Net Income (2) • Transfers (2) 	(4)

Question Number	Indicative content	Mark
(a) (ii)	<p>KAA 8 marks</p> <p>2 problems up to 4 marks each (2 x 4 marks) 2 marks for the identification and 2 marks for the explanation of each problem.</p> <p>A persistent and increasing net leakage results in</p> <ul style="list-style-type: none"> • Loss of output (growth) (2) from lack of exports and sustained imports (2). • Loss of jobs (unemployment) (2) from lack of exports and sustained imports (2). • Possibly rising household debt to fund consumption (2) as deficit suggests a country living beyond its means (2). • Possibly a lack of investment (2) as firms are concerned about UK competitiveness (2). • Threat of cost push inflation from the increased price of imports (2) if sterling weakens further (2). 	(8)

Question Number	Indicative content	Mark
(a) (iii)	<p>KAA 8</p> <p>Brief explanation of a weakening of the pound (2)</p> <p>Possible definitions include:</p> <ul style="list-style-type: none"> ● 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. <p>Explanation (2 x 4 marks).</p> <ul style="list-style-type: none"> ● 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) <p>Up to 2 marks for reference to the data</p> <p>Evaluation 4 marks (1 x 4 marks or 2 x 2 marks).</p> <p>Comments might include reference to</p> <ul style="list-style-type: none"> ● In the short run manufacturing orders will not change as they are stuck at a fixed price for a number of months, but in the long run change should take effect ● Supply of UK exports may be price inelastic ● Price elasticities of demand for imports/exports ● Impact that time has on elasticities ● 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 response to increasing external demand ● In some industries (where low cost is important) British manufacturers are unable to compete despite fall in the value of pound. ● Some industries will be unaffected because they have relatively few substitutes 	(12)

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	Indicative content	Mark
<p>* (b) QWC i-iii</p>	<p>KAA 8 marks</p> <p>Up to 8 marks for 2 factors (2 x 4 marks)</p> <ul style="list-style-type: none"> ● Fall in UK domestic demand in the recession causing more unemployment generally ● Decline in real incomes ● Global recession resulting in falling exports ● Loss of UK competitiveness e.g. linked to a higher rate of inflation ● The minimum wage being too high ● Net immigration rates ● Structural unemployment ● Reduction in availability of credit ● Tightening of fiscal policy/austerity ● New Technology ● Reward other valid explanations <p>Award up to 2 marks for use of data</p> <p>Award up to 2 marks for the use of a diagram</p> <p>Evaluation 4 marks (1 x 4 or 2 x 2) factors might include</p> <ul style="list-style-type: none"> ● The relative importance of the factors ● Reasons why the factor may actually reduce unemployment, if appropriate (EG new technology creates jobs for computer programmers, technicians.) ● Timing of the factors and their expected persistence ● Regional/sectoral/occupational differences ● Inequality issues <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> ● 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 	<p>(12)</p>

Level	Mark	Descriptor
Level 3	9-12	Explained factor and drew diagram correctly but with at least one evaluative point
Level 2	5-8	Explained factor and drew diagram correctly , or explained impact and poorly labelled correct diagram but no evaluative point; explained factor but incorrect diagram with some evaluation
Level 1	1-4	Identification of relevant factor with or without brief evaluative keywords

Question Number	Indicative content	Mark
(c) (i)	<p>KAA 6</p> <p>Up to 2 marks for: Weights as a measure of the proportion of expenditure spent on different items (2)</p> <p>Up to 4 marks for: 4 X 1 mark-</p> <ul style="list-style-type: none"> • Price survey • Expenditure and Food Survey • of approximately 7,000 households • Basket of goods • containing approximately 650 goods and services • Contents of the basket revised annually • Use of an index • Base year • Data is published monthly • Accurate definition of CPI as a measure of the average price level or accurate definition of inflation. 	(6)
(c) (ii)	<p>KAA 8</p> <p>Up to 2 marks: Use of data of an increase in savings by 6% (2)</p> <p>Up to 6 marks</p> <ul style="list-style-type: none"> • An increase in “percentage of household disposable income saved” means: • Consumption is likely to be lower decreasing AD (2) • There is an increase in a leakage to the circular flow (2) • A reduction in real output (2) • The multiplier is the number of times a rise in incomes exceeds the rise in injections that caused it. (2) • The multiplier is likely to be smaller if savings increase as a proportion of income (2) • Market interest rates may fall (2) as the supply of loanable funds increases (2) <p>Use of diagram correctly labelled (2)</p>	(8)

Question Number	Indicative content	Mark
* (c) (iii) QWC i-iii	<p>KAA 18</p> <p>Maximum 6 marks: (3 x 2marks) and up to 4 marks for a diagram</p> <ul style="list-style-type: none"> ● Explanation of the inflation target and role of the MPC in trying to achieve it: CPI target 2.0% and tolerance of + or – 1%. (2) ● Independence of the bank of England. (2) ● Identification and brief explanation of B of E policy instruments or definition of monetary policy. (2) ● Use of appropriate data. (2) ● Up to 4 marks for diagram demonstrating correct shift of AD and/or of AS, given accompanying explanation. Correct shifts in line(s) (1), lines labelled (1), axes labelled (1), equilibria labelled (1). <p>Note: diagrams where the line shift is not correct, given accompanying explanation receive no marks. If one line shift is correct and one line shift is incorrect, given the accompanying explanation then award 2 marks assuming the rest of the diagram is correct.</p> <p>12 marks (3 x 4 marks or 2 x 6 marks); Reward use of diagrams (maximum of 2 marks each if develop analysis) Factors that the bank of England consider when setting monetary policy may include:</p> <ul style="list-style-type: none"> ● Domestic Demand ● External Demand ● Exchange rate ● Oil and other commodity prices ● Wage growth ● House prices/ asset prices ● Forecast rates of inflation/ inflation expectations ● Producer prices ● Unemployment ● Any output gap ● Forward guidance given previously ● Spare capacity ● Consumer confidence ● Business confidence <p>Evaluation 12 marks (2 x 6 marks or 3 x 4 marks or 6 + 4 + 2 marks);</p> <ul style="list-style-type: none"> ● Prioritising the relative significance of each factor discussed. 	(30)

	<ul style="list-style-type: none"> ● Problem of using current inflation rate to guide monetary policy decisions. ● Potential for economic shocks changing the economic landscape considerably ● Lagged effect of many influences on the inflation rate. ● Lagged effect of monetary policy ● Uncertainty of forecasting. ● Lack of data reliability. ● Different indicators may suggest different monetary policy is needed. ● Impact of monetary policy on other Economic Objectives. <p>Quality of written communications will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"> ● 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 issues with at least two evaluative points (an evaluation points is worth up to a maximum of 6 marks)
Level 3	19-24	2 or 3 convincing issues with at least one evaluative point (mark cap to 18 if no evaluation)
Level 2	7-18	2 or 3 convincing issues with no evaluative point; 1 or 2 less-convincing issues with some evaluation
Level 1	1-6	Identification of relevant points with or without brief evaluative keywords

