Mark Scheme (SAM)

Pearson Edexcel International Advanced Subsidiary in Economics

Unit 2: Macroeconomic Performance and Policy

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.

Section A: Supported multiple choice

N.B.: Candidates may achieve up to 3 explanation marks even if the incorrect option is selected.

N.B.: Candidates may achieve up to 3 marks (rejection marks) for explaining three incorrect options (provided three different reasons are offered and each option key is clearly rejected).

Question Number	Answer	Mark
1	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of rate of inflation: rate at which prices are rising **(1)** • When prices are rising, the value of money is falling/less may be purchased for any given unit of currency **(1)** • Application (explicit data reference): fall in rate of inflation from 4.6% to 4.4% implies that prices are rising but at a slower rate **(1)** **Rejection marks** • A incorrect because the standard of living will fall only if wages are rising at a slower rate than the rate of inflation **(1)** • C incorrect because the price level would still be rising since there is a positive rate of inflation **(1)**	**(4)**

    Sample Assessment Materials

Question Number	Answer	Mark
2	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of monetary policy: use of interest rates/changes in quantity of money/use of assets purchases/sales to influence the level of economic activity **(1)** • Mechanism by which higher interest rates would reduce the rate of inflation, e.g. increased cost of borrowing **(1)** leading to a fall in consumption/investment **(1)** • AD/AS diagram showing leftward shift in AD and fall in the price level **(up to 2 marks)** **Rejection marks** • A incorrect because asset purchases could increase the money supply by increasing bank deposits **(1)** • B incorrect because tax changes are an example of fiscal policy **(1)** • C incorrect because removing price controls would lead to higher prices **(1)**	**(4)**

Question Number	Answer	Mark
3	**Answer C (1 mark)** **Explanation (up to 3 marks)** • Leading to an increase in costs of production **(1)** which causes an increase in the price level **(1)** and a fall in real output **(1)** • Annotation of diagram to show leftward shift of SRAS curve **(1)** causing a rise in the price level **(1)** and fall in real output **(1)** **Rejection marks** • A and D incorrect because an increase in commodity prices would raise costs which is likely to feed through to higher prices **(1)** • B incorrect because real output will fall following arise in the price level **(1)**	**(4)**

Question Number	Answer	Mark
4	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of fiscal policy: changes in taxes and public expenditure in order to influence the level of economic activity **(1)** • Definition of deflationary policy: measures to reduce aggregate demand **(1)** • Analysis of how the tax increases would affect aggregate demand, e.g. if higher income tax would reduce consumer spending **(1)** which in turn will reduce aggregate demand **(1)** **Rejection marks** • A is incorrect because monetary policy would involve changes in interest rates **(1)** • B is incorrect because supply side policies are those designed to increase productivity and competitiveness **(1)** • C is incorrect because direct controls relate to measures such as price controls **(1)**	**(4)**

Question Number	Answer	Mark
5	**Answer D (1 mark)** **Explanation (up to 3 marks)** • Definition of consumption: expenditure on final goods and services **(1)** • Explanation/analysis: higher house prices lead to a wealth effect **(1)** which can lead to an increase in consumption **(1)** • Increase in house sales leads to increased expenditure on associated products **(1)** • Increase in remortgaging **(1)** **Rejection marks** • A incorrect because an increase in the rate of interest would provide an increased incentive to save/increased cost of borrowing money **(1)** • B incorrect because a fall in consumer confidence would cause consumption to fall **(1)** • C incorrect because consumers would have less disposable income **(1)**	**(4)**

Question Number	Answer	Mark
6	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of unemployment **(1)** • Analysis: higher cost of borrowing leads to lower demand **(1)**, lower demand leads to job losses **(1)** **Rejection marks** • A incorrect because investment likely to fall as a result of higher borrowing cost **(1)** • C incorrect because lower aggregate demand will reduce real output **(1)** • D is incorrect because higher interest rate might lead to increase in the exchange rate, making exports more expensive **(1)**	**(4)**

Question Number	Answer	Mark
7	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of aggregate demand: total planned expenditure or formula: AD = C + I + G + (X-M) **(1)** • Explanation: a fall in imports implies a fall in leakages **(1)**, in turn, this will cause AD to fall because (X –M) will increase **(1)** **Rejection marks** • A is incorrect because investment is an injection into the circular flow so a decrease in investment will cause a decrease in AD **(1)** • C is incorrect because an increase in the current account deficit implies that leakages (imports) are rising relative to injections (exports) **(1)** • D is incorrect because an increase in taxation implies that leakages are rising **(1)**	**(4)**

Question Number	Answer	Mark
8	**Answer B (1 mark)** **Explanation (up to 3 marks)** • Definition of exchange rate: rate at which one currency exchanges for another **(1)** • Specific use of data: value of the koruna has risen against the euro **(1)** • Therefore price of Czech exports will rise in eurozone countries **(1)** making Czech goods less competitive **Rejection marks** • The increased value of the koruna against the euro implies that imports into the Czech Republic will be cheaper so D is incorrect **(1)** • The forint has fallen in value so exports would be cheaper making A incorrect **(1)** and imports would be more expensive making C incorrect **(1)**	**(4)**

Section B: Data response

Question Number	Answer	Mark
9 (a)	**Knowledge, application and analysis (up to 4 marks)** Exports are injection **(1)** and imports are leakage **(1)** Net leakage – explanation, e.g. money is flowing out **(1)** Use of data -€38.9 bn to support this **(1)**	**(4)**

Question Number		Mark
9 (b)		**(10)**
Knowledge, application and analysis – indicative content		
	Accept two possible reasons. Factors might include: • low rate of inflation compared to other eurozone countries, increasing competitiveness • relatively low unit labour costs • high level of exports from Germany, which has higher relative competitiveness • reference to data.	

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of reasons and/or data references.
2	4-6	Understanding of reasons for Germany's current account surplus with appropriate reasoning and/or data references.

Evaluation – indicative content		
	• Prioritisation with reason. • Could be a short-run issue only. • Need to know current account balance as percentage of GDP to determine significance.	

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number			Mark
9 (c)			**(14)**
Knowledge, application and analysis – indicative content			

- Definition of supply side policies.
- Diagram showing the effects of relevant government policies on the price level and output, showing an increase to the right of LRAS:

- N.B. The AS curves may be drawn as vertical lines.
- Policies should include:
  - measures to make it easier to hire and fire workers
  - reduction in the national minimum wage
  - reduction in welfare benefits.
- Credit other measures such as:
  - education and training
  - deregulation
  - cutting bureaucracy
  - promotion of competition
  - control of power of monopolies
  - reduction in planning restrictions.
- Improvement in human capital increases the value of workers' output, meaning that firms can produce more for the same price.
- Improved education increases opportunities which means that incentives can work more effectively.

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of supply side policies and/or examples and/or economic growth. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.

Level	Marks	Descriptor
2	4-6	Understanding of supply side policies with one or two relevant examples and some explanation of their impact on economic growth. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and analysis of supply side policies with relevant examples and explanation of their impact on economic growth. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation – indicative content		
- Time lag for the education to have a result on the workforce. - Education might not be effective, for example Madonna studies, Surf Science. - Expansionary fiscal implications of supply side policies. - Scope for further supply side policies is limited. - Time lags, for example supply side policies can lag for decades. - Supply side policy conflicts, e.g. increased government spending and tax can cause disincentives. - Supply side policy might have positive impact on the fiscal side in the long run.		

Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

Question Number	Answer	Mark
9 (d)	**Knowledge, application and analysis (up to 6 marks)** Award reference to: • basket of goods **(1)** • price survey **(1)** • food and expenditure survey (or equivalent) **(1)** • index (process of how an index is compiled) **(1)** • base year **(1)** • 650 items (allow in range 600 to 700) **(1)** • consideration of weights: reflection of relative importance of item in consumers' expenditure **(1)** and why they have to be changed each year **(1)** • further development **(1)**.	**(6)**

Question Number		Mark
9 (e)		**(14)**
Knowledge, application and analysis – indicative content		
	Advantages might include: • measures chosen are easy and cheap to collect • measures chosen are fairly reliable • indicates GDP has been used to increase social welfare • GDP rank minus HDI rank as a useful measure of health and education • use of education and health is a sign of successful government policies • shift of PPF or LRAS curve outwards as a sign of increased potential without increases in costs, so HDI rank is a sign of welfare in the future. N.B.: Candidates may approach this question by considering advantages or disadvantages of the HDI. The reverse arguments may be regarded as evaluation.	

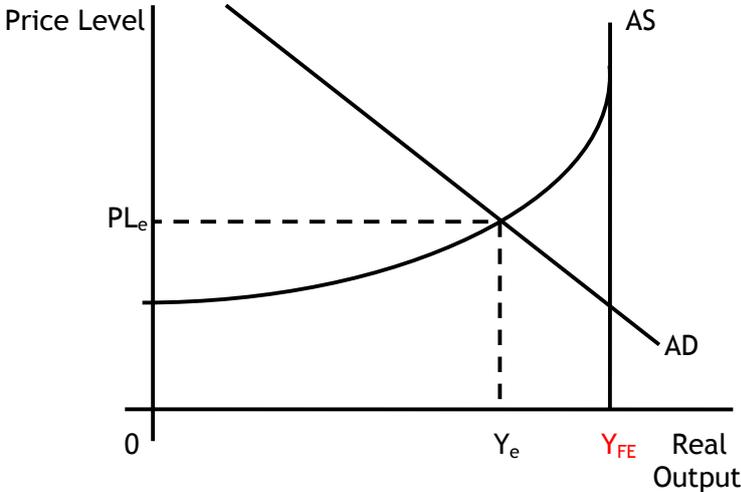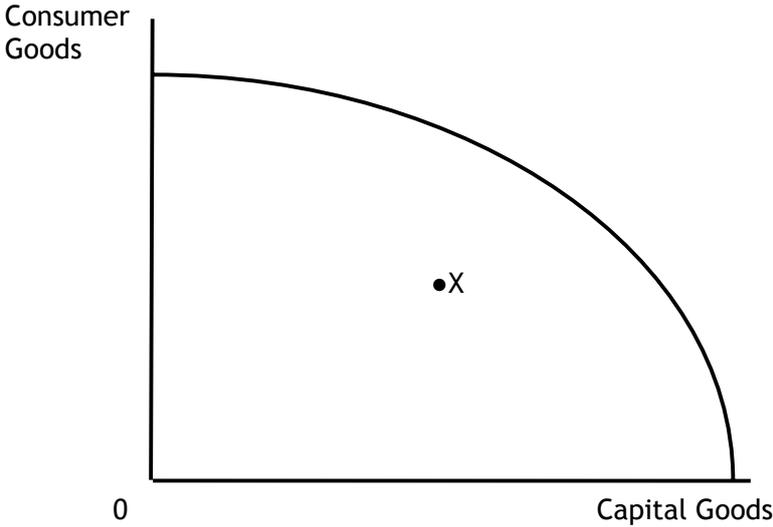| Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of advantages of the HDI or identification of one or more points. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Identification and some explanation of the advantages of the HDI. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and analysis of the advantages of the HDI in making comparisons between countries. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation – indicative content		
	Limitations might include: • differences in deprivation or poverty not fully captured by the HDI • PPP values change very quickly and are likely to be inaccurate or misleading • differences in income distribution in this measure • differences in quality of life not fully captured, e.g. wars, political oppression • very difficult to measure human development – sense of prioritisation of options • other measures, such as access to the internet, might be more useful • better to use a combination of measures • changes over time or 'other things are not equal' make the measures less useful.	

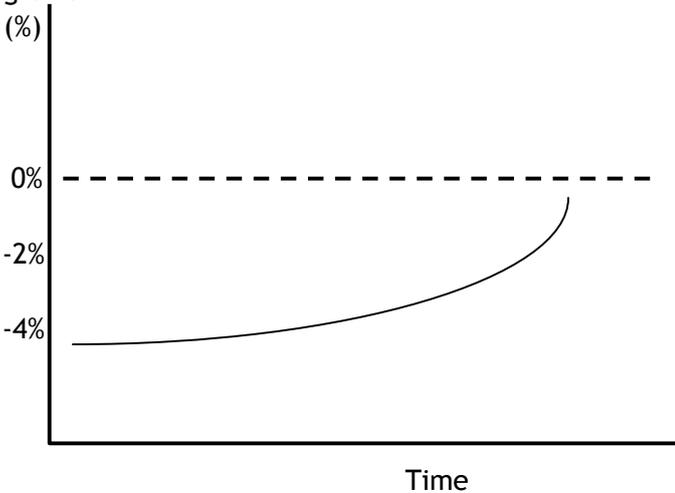| Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and relevant examples.
3	5-6	For evaluative comments supported by relevant reasoning and relevant examples.

Question Number	Answer	Mark
10 (a)	**Knowledge, application and analysis (up to 6 marks)** • Taxes are a leakage **(1)** • Government spending is an injection **(1)** • Budget deficit **(1)** equals net injection **(1)**	**(4)**

Question Number	Answer	Mark
10 (b)	**Knowledge, application and analysis (up to 6 marks)** Two factors identified (1+1 marks) and explanation (2+2 marks). Factors may include: • business confidence or start of the recovery/fear of a recession/uncertainty interest rates • willingness of banks to lend to business • government incentives such as a reduction in corporation tax or tax breaks for investment • level of aggregate demand/spare capacity/unemployment/average incomes in the economy • level of consumer confidence • level of pre-tax profits made or existing debt owed by firms • economic conditions in export markets • exchange rate • availability of new technology • the rate of inflation.	**(6)**

Question Number			Mark
10 (c)			**(10)**
Knowledge, application and analysis – indicative content			
	'Savings ratio has fallen'. - Use of correct figures, e.g. it is forecast to fall below 7% from 2011 onwards. - Definition of multiplier: the number of times a rise in national income exceeds the rise in injections that caused it/it measures the knock-on effects when an injection or withdrawal changes/the idea that one person's expenditure becomes another person's income. - Withdrawals/leakages from the circular flow fall OR the marginal propensity to save/withdraw falls. - Consumption is likely to rise OR the marginal propensity to consume is likely to rise. - The size of the multiplier increases.		
Level	Marks	Descriptor	
0	0	A completely inaccurate response.	
1	1-3	Shows some understanding of the multiplier and/or data references.	
2	4-6	Understanding of the effect of a change in the savings ratio on the value of the multiplier with appropriate reasoning and/or data references.	

Evaluation – indicative content		
	- Fall in savings ratio may be offset by rise in tax ratio or by increase in the marginal propensity to import. - Fall in savings ratio is forecast to be relatively small so value of the multiplier may not increase very much.	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by relevant reasoning.

Question Number		Mark
10 (d)		**(14)**
Knowledge, application and analysis – indicative content		

	• Definition OR diagram illustrating the output gap:
	  o a measure of the difference between actual and potential (or trend) growth/output/GDP
	  o the potential output is where the economy is at full capacity whereas the actual level of real GDP is at the intersection of AD and AS below that
	  o appropriate diagram (AS/AD, PPF) or business cycle showing actual and potential growth/output/GDP
	• Possible diagrams:	

OR:

OR:
GDP growth
rate (%)

- Identification of a negative output gap.
- Use of figures showing size of output gap, e.g. there was a negative output gap of approximately 3% in late 2010.
- Two consequences identified and explained. Award **two** consequences only. Accept changes in:
  - unemployment
  - real GDP
  - real incomes/levels of consumption/standard of living
  - confidence
  - investment
  - government budget balance
  - international competitiveness
  - trade balance.

N.B. Answers must relate to the post-2009 situation, i.e. be in the context of a negative output gap, although credit answers that discuss the positive consequences of a decrease in the size of the negative output gap.
Do not credit answers that state solely that the size of the negative output gap has increased since 2009/will increase.

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of the meaning of an output gap and/or an appropriate diagram and/or relevant data references. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	The meaning of an output gap and/or an appropriate diagram and/or relevant data references. Some explanation of the consequences. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and analysis of the output gap; relevant data reference(s) included. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation – indicative content		
	Factors might include: • magnitude of different consequences • short-term and long-term consequences • vicious cycle/spiral • although the output gap is negative, it has been decreasing in size since mid-2009 • Extract 1 predicts a continuing current account deficit, rather than an improving balance • forecast may be wrong • difficulty of estimating the output gap.	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application to context.
3	5-6	For evaluative comments supported by relevant reasoning and clear application to context.

Question Number		Mark
10 (e)		**(14)**
Knowledge, application and analysis – indicative content		

	• Effect on unemployment.	
	• Effect on price level or inflation.	
	• Appropriate AD/AS diagram.	

N.B. In the long run the AS curve might shift to the left also, for example if government expenditure on infrastructure and education is cut.

Level	Marks	Descriptor
0	0	A completely inaccurate response.
1	1-3	Shows some awareness of possible effects on the UK economy or identification of one or more effects. Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.
2	4-6	Understanding and some explanation of one or more possible effects and/or an appropriate diagram. Material is presented with some relevance but there are likely to be passages that lack proper organisation. Punctuation and/or grammar errors are likely to be present which affect clarity and coherence.
3	7-8	Clear understanding and analysis of possible effects of a government's attempt to reduce its budget deficit. Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.

Evaluation – indicative content		
	Factors might include: • magnitude of austerity measures • short-run v long-run effects • significance of the size of the multiplier • other factors may be more important – ceteris paribus might not hold • effects depend on the level of spare capacity/gradient of the AS curve/elasticity of AD curve • different effects in different industries or parts of the country • different effects on different labour markets – private sector and public sector.	
Level	Marks	Descriptor
0	0	No evaluative comments.
1	1-2	For identifying evaluative comments without explanation.
2	3-4	For evaluative comments supported by some reasoning and application.
3	5-6	For evaluative comments supported by relevant reasoning and clear application.