

**EC2****GENERAL MARKING GUIDANCE****Positive Marking**

It should be remembered that candidates are writing under examination conditions and credit should be given for what the candidate writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good candidate to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.



Question	Answer	Mark allocation	Assessment objective
Q.1 (c)	<p><b>With the aid of diagrams explain what is meant by:</b></p> <p><b>(i) the ‘minimum wage effect’ (line 7)</b></p> <p>Minimum wage effect: higher wages reduce the demand for labour and cause unemployment (2) Diagram (2)</p> <p><b>(ii) the ‘recession effect’ (lines 6-7 &amp; 18)</b></p> <p>When explaining the rise of youth unemployment.</p> <p>Recession effect: Falling AD leads to a falling demand for labour (derived demand) and rising unemployment (2) AD/AS diagram with AD shifting left. (2) OR labour market diagram showing the demand for labour shifting left (2) explained (2)</p>	<p>4</p> <p>4</p>	<p>AO1 2 AO2 1 AO3 1</p> <p>AO1 2 AO2 1 AO3 1</p>
Q.1 (d)	<p><b>Using an appropriate diagram, evaluate the extent to which increases in the minimum wage will “increase costs for firms who then pass this on to customers in the form of higher prices”. (line 16)</b></p> <p>Increases in the NMW will increase firms’ costs (2). Shifts the supply curve to the left raising the price of products (2) Diagram (2). OR Diagram showing AS shifting left (2). BUT: Depends on the Ped of the firms’ products, wage costs as a proportion of total costs, state of the economy (firms reduce profit margins or reduce staffing). Some firms pay everyone above the NMW, a higher NMW motivates workers to higher productivity and reduces costs, depends on the magnitude of the NMW. Max 4 without evaluation Reversible answer.</p>	8	AO1 2 AO2 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
Q.1 (e)	<p><b>Discuss whether supply side policies are likely to be the best way to reduce the level of unemployment in the UK.</b></p> <p>Definition of supply side policies (1). Identification of relevant of supply side policies: training/education, welfare/tax reform and labour market reform. Explanation of how these help to reduce unemployment. Relevant diagram (2).</p> <p>BUT: Policies may be wrongly focussed, lack of AD in the economy may prevent unemployment falling/policies are expensive/take a long time to work etc. Relevant alternative demand side policies discussed (Max 2)</p> <p>Max 2 per policy. Max 6 without evaluation.</p> <p>Reversible answer</p>	10	AO1 2 AO2 2 AO3 2 AO4 4

## SECTION B

Question	Answer	Mark allocation	Assessment objective
Q.2 (a)	<p><b>With the aid of diagrams explain why the prices of agricultural goods fluctuate more than the prices of manufactured goods?</b></p> <p>Candidate refers to the different <math>P_{ed}</math> and <math>P_{es}</math> in agriculture and manufacture and gives the reasons for this (4).</p> <p>Candidate explains how shifts in supply due to weather etc in agricultural markets have a big impact on price as does speculation on the demand side. Thus there is price volatility compared to manufactured goods (4).</p> <p>Candidate draws well explained diagrams (4).</p> <p>Candidates may refer to the Cobweb diagram.</p>	8	AO1 3 AO2 3 AO3 2
Q.2 (b)	<p><b>Evaluate the view that governments should try to stabilise prices in agricultural markets.</b></p> <p>Prices and incomes are volatile in agriculture and thus produces find it harder to plan ahead/invest. May exit farming but food supply is vital to the global economy. Fairer to consumers (max price). Preserve rural employment.</p> <p>There is a need for price stability (minimum price). Reduce rural poverty/inequality.</p> <p><b>BUT:</b></p> <p>Stabilising prices/incomes via guaranteed minimum prices/buffer stock schemes is costly/causes over production/leads to a misallocation of resources. Taxpayers and consumers lose/loss of consumer surplus. Many schemes have failed in the past. Many schemes fail because of poor administration/corruption.</p> <p>Diagram (2).</p> <p>Max 8 without evaluation (reversible answer).</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

Question	Answer	Mark allocation	Assessment objective
Q.3 (a)	<p><b>What factors determine the price elasticity of demand of a product?</b></p> <p>Definition of price elasticity of demand/ equation. (1)</p> <p>Price elasticity determinants:</p> <p>Luxury or necessity: petrol v restaurant meals            Number of substitutes: electricity v soft drinks.            Price in relation to total income: box of matches v new kitchen.            Addictive: link to tobacco.            Brand loyalty: link to advertising.            Durable or non-durable: washing machine v washing powder.</p> <p>Max 3 for any factor explained.</p>	8	AO1 3 AO2 3 AO3 2
Q.3 (b)	<p><b>With the aid of diagrams and examples, discuss the view that a rise in demand for a product will always raise both the price and quantity sold.</b></p> <p>Diagram and explanation showing how a rise in demand leads to a rise in price and quantity sold. Explanation to include the working of the price mechanism.            Diagram (2) Examples (2) Explanation (4)</p> <p>Rise in demand may lead to a rise in just price when supply is perfectly inelastic (2).            Plus diagram (2).            Rise in demand may lead to just a rise in quantity sold when supply is perfectly elastic (2). Plus diagram (2). Examples (2).            Rise in demand is offset by a similar rise in supply (2). Diagram (2).            Maximum price prevents a rise in demand increasing price (2). Diagram (2).</p> <p>Reversible answer.</p> <p>Max 8 without evaluation.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
Q.4 (a)	<p><b>With the aid of examples distinguish public goods from private goods.</b></p> <p>Public goods defined via explanations on non-rivalry and non-excludability (free rider problem) (2).            Illustrated example (2).            Private goods defined via reverse of public goods/able to assert private property rights (2).            Illustrated example (2).</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
Q.4 (b)	<p><b>Evaluate the policies that a government could introduce to reduce greenhouse gas emissions which contribute to global warming.</b></p> <p>Policies:  Taxes on external costs i.e. APD/Climate Change Levy  Tradable pollution permits i.e. ETS  Regulations on emissions for cars/planes/factories i.e. catalytic converters, London Low Emissions Zone.  Subsidies to reduce emissions i.e. renewable energy (wind farms)</p> <p>Any plausible policy requires evaluation.</p> <p>Max 8 without evaluation. Max 6 for one point fully evaluated.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

**SECTION C**

Question	Answer	Mark allocation	Assessment objective
<p><b>Q.5 (a)</b></p>	<p><b>Explain the main factors taken into account when setting the base interest rate in the UK?</b></p> <p>Economic data considered each month by the MPC includes the GDP growth and spare capacity: The rate of growth of real national output and the estimated size of the output gap.</p> <p>Bank lending and consumer credit figures. Equity markets (share prices) and house prices. Consumer confidence and business confidence indicators. The growth of wages, average earnings and unit labour costs in the labour market Unemployment figures Trends in global foreign exchange markets –. Forward looking indices such as the Purchasing Managers’ Index International economic data including recent macroeconomic developments in the Euro Zone and the United States. Forecasts for inflation relative to the target. Reward a maximum 2 marks for an appropriate AD/AS diagram. Max 3 for each point made.</p>	<p>8</p>	<p>AO1 3 AO2 3 AO3 2</p>
<p><b>Q.5 (b)</b></p>	<p><b>To what extent can monetary policy be relied upon to get an economy out of a recession?</b></p> <p>Definition of monetary policy (1) Explanation of how low interest rates can affect the components of AD. Consumption, Investment, Exports (via a lower exchange rate). Possible benefits of QE. Use of an AD/AS diagram. Max 8 without evaluation.</p> <p><b>BUT:</b> Problems with low expectations among consumers and firms/interest inelasticity. Recovery difficult if major export markets are flat. Banks refusal to lend to firms. Low UK interest rates in recent years/QE have not had a significant effect – although it would have been worse without these policies perhaps. Max 8 without evaluation. Answer is reversible.</p>	<p>12</p>	<p>AO1 3 AO2 3 AO3 2 AO4 4</p>



Question	Answer	Mark allocation	Assessment objective
<p><b>Q.6 (a)</b></p>	<p><b>Explain the factors that determine the level of investment in an economy.</b></p> <p>Definition of investment (1)            Factors: Expectations, interest rates, company tax rates, level of profits of firms, technological change, availability of funds, government capital spending.</p> <p>Any plausible factor explained maximum 3 marks.</p>	8	AO1 3 AO2 3 AO3 2
<p><b>Q.6 (b)</b></p>	<p><b>To what extent is investment always good for an economy?</b></p> <p>Good for an economy:</p> <p>Increase in productive potential/shifts LRAS to the right.            Firms take advantage of technological change.            Increase in productivity/national competitiveness.            Improves the quality of goods/services.            Diagram (2)            Max 8 without evaluation.</p> <p><b>BUT:</b>            Investment can be badly directed.            Causes loss of employment.            New skills for workers needed which requires re-training.            Short term problems with new investment (installation/training) Long term availability of spare parts.            High investment can increase inflation (rise in AD).</p>	12	AO1 3 AO2 3 AO3 2 AO4 4
<p><b>Q.7 (a)</b></p>	<p><b>Explain why a country's foreign exchange rate might fall against other currencies.</b></p> <p>Definition of exchange rates (1)</p> <p>Lower interest rates than other countries.            Trade deficit.            Lack of confidence in the economy/government policies.            Quantitative easing.            FDI overseas.            Speculation.            Government intervention policy (selling currency)</p> <p>Max 3 for each point made.</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
7 (b)	<p><b>Evaluate the view that a fall in the value of the pound will enable the UK government to achieve its macroeconomic objectives.</b></p> <p>Macroeconomic objectives stated (2).</p> <p>Fall in the pound will help the trade balance (1) Explained (2).</p> <p>Fall in the pound will help unemployment (1) Explained (2).</p> <p>Fall in the pound will help economic growth (1) Explained (2).</p> <p><b>BUT:</b></p> <p>Fall in the pound could cause inflation (1) Explained (2).</p> <p>Depends on the Ped of exports and imports (2).</p> <p>Depends on the extent of the fall in the pound (2).</p> <p>Depends on the state of the global economy (2).</p> <p>Max 8 without evaluation.</p> <p>Reversible answer.</p>	12	AO1 3 AO2 3 AO3 2 AO4 4

## SECTIONS B and C

**The following levels should be applied to each question.**

### Part (a) questions

<b>Level 1 1 - 3</b>	Limited knowledge of relevant economic theory. One or two basic points made.
<b>Level 2 4 - 6</b>	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
<b>Level 3 7 - 8</b>	The demands of the question are fully understood and relevant economic theory has been fully explained and applied using relevant examples/diagrams throughout the answer.

### Part (b) questions

<b>Level 1 1 - 4</b>	Limited knowledge of relevant economic theory with no real engagement with the issue being considered. Likely to focus on just one side of the issue. Information is poorly organised. There is limited use of specialist terminology/vocabulary and frequent errors in SPG.
<b>Level 2 5 - 8</b>	Basic economic theory and principles are explained/applied/analysed. The candidate engages with the issue being considered using appropriate examples/diagrams, but may focus heavily on one side of the issue and evaluation may be limited.  Information is well organised and ideas are expressed in a logical manner. There is good use of specialist terms/vocabulary with some errors in SPG, but these are not intrusive.
<b>Level 3 9 - 12</b>	Relevant economic theory and principles are fully understood, applied and analysed. The issue is fully evaluated using a range of appropriate examples/diagrams.  Information is very well organised and argument is presented clearly and coherently. There is very good use of specialist terms/vocabulary with few, if any, errors in SPG.