

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.

GCE ECONOMICS - EC2
MARK SCHEME - SUMMER 2014

Section A

Question	Answer	Mark allocation	Assessment objective
1 1	<p>Using examples from the above data explain the meaning of the term fiscal policy.</p> <p>Good understanding showing an awareness that fiscal policy involves the use of both government spending and tax. (2)</p> <p>Some understanding: Either identifies only G or T or mixes in other extraneous factors such as interest rates. (1)</p> <p>No understanding shown. (0)</p> <p>Data:</p> <p>No data use. (0)</p> <p>Fair data use: the answer makes reference to the US government's decisions in this case but either only tax or government spending has examples or no specific numerical data is used, but the answer is set in context.(1)</p> <p>Good data use: clear use of both a tax (increase in income tax rates of 4.6%) and government spending (\$110bn cuts in defence spending) or "temporary tax cuts ended and government spending cuts introduced for a total of \$600bn". Use of bar chart.(2)</p>	4	AO1 2 AO2 2
1 2	<p>With reference to 14-16 explain the concept of opportunity cost.</p> <p>Definition/understanding of opportunity cost:</p> <p>Strong definition: Value of best alternative foregone or Equivalent. (2)</p> <p>Weak definition: If you do one thing you can't do something else. (1)</p> <p>Use of data: Good: Explains that defence spending means that the government has less money available to spend on infrastructure - there isn't enough money to spend on both. Or candidate shows an understanding that opportunity cost means that the benefits from one option are lost because the other has been chosen. Or shows a clear sense that there is a constraint present – it is impossible to have both. Simply states that infrastructure is the opportunity cost of defence spending without explaining why. (1)</p>	4	AO1 2 AO2 2

Question	Answer	Mark allocation	Assessment objective
<p>1 3</p>	<p>Using an aggregate demand and supply diagram explain the Federal Reserve’s decision not to raise US interest rates until unemployment falls below 6.5%.</p> <p>Up to 3 for Reduce/slow down the rate of growth of AD: Good explanation of why AD will be affected, clearly explaining at least two of C, I and the exchange rate. (3) Fair explanation of why AD will be affected weak explanation of at least two of C, I and the exchange rate, or good explanation of one factor. (2) Weak explanation of why AD will be affected: answer really asserts that C will fall due to increased saving and no more.(1)</p> <p>Up to 2 for impact on the US economy Fall/reduced rate of growth of AD will stop unemployment falling, reduce GDP growth, push the US economy back into recession, worsen the budget deficit: 2 for good, relation to the impact on key economic variables in the US.</p> <p>Up to 2 for good diagram use: Correct diagram showing fall in AD or reduced rate of increase if AD. (1) Diagram referenced clearly in the answer. (1) Candidates may explain that low interest rates will increase AD and thus should be kept low to reduce unemployment. Max 6 if the effects on AD are fully explained.</p>	<p>6</p>	<p>AO1 2 AO2 2 AO3 2</p>

Question	Answer	Mark allocation	Assessment objective
<p>1 4</p>	<p>Using a diagram discuss the view that raising income tax rates for those individuals earning over \$400,000 will increase tax revenue for the US government.</p> <p>Raising tax rates will increase revenue:</p> <p>Higher tax rates means that those earning over \$400,000 will pay more tax, hence total tax revenue will rise.(2)</p> <p>Higher tax rates may lead to high income earners demanding higher bonuses, working harder and so on to recoup the lost income. (2)</p> <p>Supported by use of upward sloping segment of the Laffer curve. (2)</p> <p>Raising tax rates will not increase revenue:</p> <p>Higher income tax rates may reduce entrepreneurialism, make the US less attractive for new businesses to be founded, hence tax revenue might fall. (2)</p> <p>High tax rates might lead to increased tax avoidance/evasion. (explained = 2)</p> <p>Business people relocate abroad meaning that the tax base falls. (explained = 2)</p> <p>Higher tax rates may reduce AD, reducing spending and therefore tax. (1)</p> <p>Only a small number of people earn over \$400,000, so limited impact. (2)</p> <p>Illustrated by downward sloping segment of the Laffer curve. (2)</p> <p>Max 5 without evaluation. Max 6 without diagram. Max 3 for integrated diagram, Max 1 for unused but accurate diagram.</p> <p>Mechanistic explanation of Laffer curve only = up to 3.</p>	<p>8</p>	<p>AO1 1 AO2 1 AO3 2 AO4 4</p>

Question	Answer	Mark allocation	Assessment objective
<p>1 5</p>	<p>Explain using a diagram why falling over the ‘fiscal cliff’ “could have pushed both the US economy and maybe the global economy into recession”. (lines 5-6)</p> <p>Cause a US Recession (up to 4 marks, 6 with a diagram)</p> <p>AD will fall because of cuts in government spending which will cause job losses and impacts along the supply chain. (2)</p> <p>AD will fall because tax increases will cause consumption and possibly investment to fall, again causing job losses and impacts along the supply chain. (2)</p> <p>Linked back to US recession using diagram - AD shifts leftwards reducing the equilibrium level of real GDP. (2)</p> <p>Max 4 if don’t treat G and T separately.</p> <p>Cause a global recession (up to 4 marks, 6 with a diagram).</p> <p>Exports from other countries to the US will fall reducing AD in those countries for which the US is a major market, reducing GDP in those countries. (2)</p> <p>US is the world’s largest single economy, meaning that it can have significant effects. (2)</p> <p>Reduced US profits/confidence may reduce outward US FDI. (2)</p> <p>US recession may damage confidence around the world, therefore having ‘contagion effects’, reducing consumption and investment there. (2)</p> <p>US recession may cause the dollar to slump again making it harder to sell to the US. (2)</p> <p>Diagram. (2) Well integrated diagram. (2) Correct diagram but not integrated. (1)</p> <p>Max 6 without reference to effects on both the US and global economy.</p> <p>Max 6 without diagram. If diagram is not explained/integrated, max 1.</p>	<p>8</p>	<p>AO1 3 AO2 3 AO3 2</p>

Question	Answer	Mark allocation	Assessment objective
<p>1 6</p>	<p>Discuss whether “spending less on defence and more on both improving America’s crumbling infrastructure and boosting spending on education and training” (lines 15-16) will be enough to reduce the US trade deficit.</p> <p>Yes it will reduce the deficit (up to 6):</p> <p>Improving US infrastructure (Max 5) can improve the US trade deficit by:</p> <p>Encouraging inward FDI/higher domestic investment so that more products are made domestically instead of imported/more can be exported. (1-2)</p> <p>Better infrastructure will allow businesses to be more productive/transport goods more easily/reduce costs therefore making US firms more competitive, higher quality and increasing X/reducing M.(1-3)</p> <p>Spending on education and training (Max 5) can reduce the trade deficit by:</p> <p>May raise productivity/quality, reducing unit costs/improving value added and therefore making US firms more competitive, increasing exports and reducing imports. (1-3)</p> <p>May allow the US to produce goods and services domestically that might otherwise have been imported, reducing imports. (1-2)</p> <p>Reducing defence spending can reduce the trade deficit by (Max 4):</p> <p>May reduce demand for imported components such as steel, electronics and so on. (1-2)</p> <p>May lead to redundancies in the military-industrial complex, increasing unemployment and reducing imports. (1-2)</p> <p>No it will not be enough to reduce the trade deficit (up to 6):</p> <p>Improvements in productivity may not be enough given low-cost competition from abroad. (1-2)</p> <p>The US recovery, once it begins may suck in imports faster than exports can compensate. (1-2)</p> <p>Risk of government failure in infrastructure spending/training and education, meaning that the policies are ineffective. (1-2)</p> <p>The US economy isn’t the only one making supply side reforms - the changes may only be sufficient to stop the deficit from rising further.(1-2)</p> <p>The global economy, especially the euro zone, is performing poorly meaning that even if the policies have an impact, exports may still not rise. (1-2)</p> <p>Rising employment might raise spending and lead to a rise in imports. (2)</p> <p>Max 2 in total for any of the following:</p> <p>Supply side policies take time to take effect (explained (1) so therefore the trade deficit may only begin to fall in the long run/not fall in the short run. (1)</p> <p>Other factors affect the trade deficit such as the exchange rate and if these are moving in an adverse direction, the deficit may still not fall. (1-2)</p> <p>Depends on how much the changes are. (Max 1)</p> <p>Appropriate well integrated diagram use up to 2 marks.</p> <p>Max 6 without evaluation. (Reversible answer)</p>	<p>10</p>	<p>AO1 2 AO2 2 AO3 2 AO4 4</p>

Section B

Question	Answer	Mark allocation	Assessment objective
2 1	<p>Explain why the equilibrium wage rate for some jobs is below the national minimum wage.</p> <p>Supply is relatively high (max 6 including diagram):</p> <p>Low levels of skill/training are needed. (1) Therefore supply will be high at any given wage rate (or equivalent) because anybody can do it.(1)</p> <p>Low levels of formal qualifications are needed. (1) Therefore supply will be high at any given wage rate (or equivalent) because anybody can do it. (1)</p> <p>Clampdown on benefits etc. (1) may have led to an increased supply of workers into low skilled jobs. (1)</p> <p>Inward migration from the EU (1) has increased supply more in some sectors than in others, some of these are in low wage jobs. (1)</p> <p>Use of diagram or otherwise to explain why these will push down the equilibrium wage. (up to 2)</p> <p>Demand is relatively low (max 6 including diagram):</p> <p>Demand for some jobs is falling (1) because workers are being replaced by technology (supermarket checkout operators etc.). (1)</p> <p>UK recession has caused falling demand for goods and services (1) reducing the derived demand for labour. (1)</p> <p>Demand for some jobs is highly elastic. (1) Because markets are highly competitive/workers are easily substitutable,(1) which prevents the equilibrium wage from being high.(1)</p> <p>Use of diagram or otherwise to explain why these will push down the equilibrium wage. (up to 2)</p> <p>Minimum wage factors (max 2)</p> <p>Minimum wage has been rising in recent years (1) much faster than inflation since it was first introduced in 1999 from £3.60/hour. (1)</p> <p>Black market factors (max 3)</p> <p>Illegal immigrants are unable to work within the normal employment market (1) they are unprotected by the law (1) therefore they can be exploited by employers. (1)</p> <p>Weak trade unions (max 2)</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
<p>2 2</p>	<p>Discuss the view that the UK national minimum wage of £6.31 per hour is too low.</p> <p>NMW is too low (up to 8)</p> <p>Low minimum wage provides little incentive to look for work (1) therefore restricting the supply of workers to firms. (1)</p> <p>Minimum wage has not kept up with the cost of living in recent years (1) therefore reducing living standards for the most vulnerable members of society. (1)</p> <p>Minimum wage is too low relative to benefits levels (1) therefore unemployment/poverty trap, high benefits payments etc. (1)</p> <p>Higher minimum wage increases firms costs meaning they have to become more productive (1) therefore firms may be more likely to train/invest.(1)</p> <p>Higher minimum wage might lead to an increase in incomes for low paid workers (1) therefore leading to an increase in AD. (1)</p> <p>Too low in some areas such as the southeast (1) where the cost of living is very high (1) - might be too high in more depressed areas such as the northeast. (1)</p> <p>Only affects a relatively small number of workers (1) hence it is not really doing the job that it was designed to do. (1)</p> <p>NMW is not too low (up to 8)</p> <p>Minimum wage at this level reduces the demand for labour because firms' costs are too high (1) therefore causing job losses (1) integrated diagram to illustrate increase in unemployment. (1-2)</p> <p>Minimum wage drives up firms costs forcing firms to increase prices (1) hence leading to an increase in inflation (1) and damaging international competitiveness. (1)</p> <p>Rising costs may erode profits (1) therefore leading to a reduction in investment by firms. (1)</p> <p>May have knock on effects on other jobs as workers try to maintain differentials. (1)</p> <p>UK wage levels have attracted migrant workers from abroad (1) hence the wage is clearly attractive within the European labour market, so it's high enough. (1)</p> <p>However this depends (up to 4)</p> <p>Maybe too high in some areas and too low in others (1) meaning that a regional minimum wage might be more sensible. (1)</p> <p>On elasticity of demand and supply for labour. If demand is highly wage elastic then the impact on unemployment will be much greater (1) this is quite likely when the economy is in recession/growing slowly because firms are unable to afford the increase. (1)</p> <p>On minimum wages in other countries (1) UK minimum wage is already quite high by the standards of some other EU countries. (1)</p> <p>Maximum 8 with no evaluation.</p>	<p>12</p>	<p>AO1 3 AO2 3 AO3 2 AO4 4</p>

Question	Answer	Mark allocation	Assessment objective
3 1	<p>Explain the role of profit and price in a market economy.</p> <p>8 marks for a clear explanation of how prices and profits work to allocate resources in a free market economy:</p> <p>Possible example:</p> <p>Suppose demand rises for a particular good. This will create a shortage in the market. (1) At the original price there will now be excess demand (1) Consequently prices will begin to rise. (1) As a result of this, new producers will be encouraged into the market because the higher prices will encourage supply/cover higher marginal costs. (1) Therefore allowing firms to make more profits. (1) The higher price will allow resources to be taken away from less profitable activities. (1) Therefore ensuring that resources are optimally allocated. (1)</p> <p>At the same time, rising prices will cause demand to contract. (1) Allocating resources to those consumers who (in principle) most want the good or service. (1)</p> <p>Supply and demand diagram to support this (1-2 if used).</p> <p>Other approaches (profit and prices treated separately)</p> <p>Profits (up to 4)</p> <p>Profits are important because they are the reward for risk (1) hence they encourage entrepreneurial activity/investment. (1) Profits are a source of low-cost investment (1) therefore allowing reinvestment into product and process (1) helping to create potential growth.(1) Profits are a source of revenue for the government via corporation tax. (1) Profits allow dividends to be paid (1) supporting pensions/pension funds. (1) Profits help to draw resources towards sectors making high profits where demand is high (1) helping to make resource allocation more efficient. (1)</p> <p>Prices (up to 4)</p> <p>Prices are important for bringing supply and demand into equilibrium (1) if there is excess demand prices will rise (1) causing a contraction in demand and extension in supply (1) diagram. (1-2)</p> <p>Prices have an allocative, signalling, rationing role in a market economy. (1) Explained. (3)</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
<p>3 2</p>	<p>Discuss the view that education and health are best provided by the free market.</p> <p>Yes:</p> <p>Up to 8 marks: Free markets allocate resources efficiently (1) the market for education and health will be in equilibrium at a price which ensures demand equals supply. (1) If education and health are supplied free they will be undervalued and overused (1) hence creating excess demand, waiting lists in hospitals etc. (1) Free health and education is expensive for countries via the taxpayer (1) leading to high government spending, high taxes and borrowing.(1)</p> <p>Competition between providers will be good for consumers (1) as quality will be increased as providers compete for custom (1) but risk of race to the bottom as costs are cut and quality is sacrificed.(1) Free markets provide consumers of education and health with more choice. (1) Charging for education may encourage students to think more carefully about their course choices and reduce drop-out rates (1) making the whole system more effective (1). Free at point of consumption health creates the problem of moral hazard (1) explained.(1)</p> <p>No:</p> <p>Up to 8 marks: Education and health provide significant external benefits from consumption (1) therefore they will be under consumed in the free market (1) i.e. productivity via skills (1) and health with a positive impact on GDP; A country has a more efficient and healthier workforce. (1) Therefore provision through the free market will lead to a misallocation of resources because health/education will be under-consumed (1) resulting in a welfare loss (1) welfare loss diagram. (1-2)</p> <p>Free health and education help to promote social mobility (1) therefore reducing income inequalities. (1) Free health and education and compulsory consumption overcome information gaps (1) and retrospective regret. (1) Market provision of health care allows providers to exploit asymmetry of information when treating patients.(1)</p> <p>Health care is a basic need/right (1) therefore it is unfair to make people pay for it (1) and inequalities will be driven up/regressive. (1)</p> <p>Max 8 with no evaluation.</p>	<p>12</p>	<p>AO1 3 AO2 3 AO3 2 AO4 4</p>

Question	Answer	Mark allocation	Assessment objective
<p>4 1</p>	<p>Explain why governments may need to intervene in the market for fish to prevent market failure.</p> <p>Understanding of market failure (2 max): Good understanding of market failure: Forces of supply and demand misallocate resources so that the equilibrium output is too high in some markets but too low in others/misallocation of resources results in a welfare loss/fails to maximise community surplus. (2) Resources are misallocated (1) market causes a welfare loss (1) Resources are over-used (1)</p> <p>Relation to the context of fish (6 max) Understanding of private property rights (1) there is an absence of clearly defined property rights in this case (1) because fish are effectively non-excludable in the open sea/anyone can go and fish in a free market (1) but they are diminishable - there are finite stocks. (1)</p> <p>Therefore fish will be over-exploited/there will be a tragedy of the commons (1) because firms are only interested in private profit. (1)</p> <p>Improvements in technology (sonar etc.) make over-exploitation even easier. (1)</p> <p>Therefore governments have to intervene to restrict supply/access (1) otherwise fish will become extinct meaning that the resource has been over-exploited. (1)</p>	<p>8</p>	<p>AO1 3 AO2 3 AO3 2</p>

Question	Answer	Mark allocation	Assessment objective
<p>4 2</p>	<p>With reference to relevant economic theory, evaluate the policies that could be used to preserve fish stocks in the North Sea.</p> <p>Up to 5 for: Fishing quotas can be imposed to protect fish stocks (1) limits on catches by weight otherwise fines are imposed (1), but surplus fish are discarded to avoid fines (1) which might be seen as an example of government failure (1) because there has been a worse misallocation of resources (1) difficult and expensive to police so a waste of resources (1) because of the numbers of boats and nationalities involved. (1)</p> <p>Up to 4 for: Tax endangered fish to reduce quantity demanded (1) price rises and quantity demanded falls (1) creating an incentive to eat/catch less endangered species (1) but demand may be price inelastic because of custom/tastes (cod?). (1) There is a need for international agreement to have any major impact. (1)</p> <p>Up to 4 for: Limit access to fishing grounds: limit time on sea/close fishing areas(1) this will allow fish to breed/stocks to recover (1) but cost of policing may be very high because of the large areas involved (1), may have to compensate fishing communities/pay fishing boats not to fish. (1)</p> <p>Up to 4 for: Fish farms: subsidies can be given to set up fish farms (1) hence increasing the supply of fish (1) but costly (1) disease spreads quickly (1) escapes from farms can affect the gene pool. (1)</p> <p>Up to 4 for: Regulate fishing techniques (1) outlawing certain techniques (explosives, bottom trawling)/imposing regulations such as wider mesh nets (1) reduces size and amount of fish caught (1) but cost of policing due to the number of boats/wide areas involved. (1)</p> <p>Up to 2 for: Advertising campaigns to promote non-endangered varieties (1) therefore reducing demand for endangered species. (1)</p> <p>General evaluation.</p> <p>North Sea is accessible to fishing boats from many different EU nations (1) therefore will need EU agreement to be effective. (1) Candidates should be rewarded for appropriate reference to the EU Common Fisheries Policy.</p> <p>Max 3 for undeveloped policies Award marks to best 4 policies Max 8 for explanation of policies with no limitations/evaluation. Avoid double-crediting evaluation (cost of policing etc.). Relevant diagram to support any piece of analysis above is worth up to (2).</p>	<p>12</p>	<p>AO1 3 AO2 3 AO3 2 AO4 4</p>

Section C

Question	Answer	Mark allocation	Assessment objective
<p>5 1</p>	<p>Explain why it may be difficult for a government to achieve all its macroeconomic objectives at the same time.</p> <p>Understanding of key macroeconomic objectives: high/full employment, low stable inflation, economic growth, current account balance, accept also deficit reduction or sustainability reducing depletion/degradation or reducing inequality etc. (2 max)</p> <p>Rising growth/falling unemployment may push the economy closer to full employment (1) as a result resources begin to run short/competition is lower in product markets. (1) Therefore costs of production begin to rise/it is easier to increase prices. (1) Therefore inflation may occur. (1) Illustrated with diagram. (1) (4 max)</p> <p>Rising growth/falling unemployment will increase the disposable incomes of households. (1) As a result of which consumption will rise, some of which will be likely to be spent on imports. (1) Rising consumption may increase inflation, damaging UK firms' competitiveness. (1) Hence the trade balance/current account deficit will be liable to deteriorate. (1) (4 max)</p> <p>Cost-push inflation will drive up UK firms' costs pushing up prices. (1) Therefore AD is likely to contract, damaging growth. (1) Falling growth may also increase unemployment. (1) Rising prices may damage competitiveness, damaging the trade balance/current account balance (1) illustrated with diagram. (1) (4 max)</p> <p>Rising growth will require more and more resources to be able to sustain (1) therefore resources may be depleted and the environment damaged. (1) (2 max)</p> <p>Rising growth is likely to benefit those in jobs/business owners (1) therefore inequalities in income and wealth are likely to rise. (1) (2 max)</p> <p>It may be difficult to achieve policy objectives, but not impossible because SSPs might work, but these take a long time to implement etc. (2)</p> <p>Increased economic growth might cost jobs if it is driven by technological change. (up to 2)</p>	<p>8</p>	<p>AO1 3 AO2 3 AO3 2</p>

Question	Answer	Mark allocation	Assessment objective
<p>5 2</p>	<p>Evaluate the policies a government could introduce to reduce its budget deficit.</p> <p>Rising taxes (Max 8 from rising taxes)</p> <p>Higher income taxes May mean that the existing population will now have to pay more of their income. (1) As a result the government’s tax revenue should rise, reducing the deficit. (1) Illustrated by Laffer curve. (1)</p> <p>But</p> <p>May create disincentives to work (1) tax avoidance/emigration (1) illustrated by Laffer curve (1) may reduce AD further, reducing VAT receipts (1) and increasing unemployment therefore increasing benefit payments. (1)</p> <p>Higher corporation tax In principle corporations will have to pay a higher proportion of their profits to the government (1) therefore raising tax revenue and reducing the deficit. (1)</p> <p>But</p> <p>Corporation tax is easy to avoid for some corporations (Amazon/Starbucks etc). (1) May deter FDI, resulting in lower tax receipts in the longer term. (1) Corporation tax is a relatively small proportion of the overall tax base. (1)</p> <p>Higher indirect taxes Increased VAT and excise duties will mean that goods and services have more tax on them (1) therefore the government’s tax revenue should rise, reducing the deficit (1) this may work well on demerit goods where demand may all be relatively price inelastic (1) also has the advantage that it may tackle market failure. (1)</p> <p>But</p> <p>Risk that too large a rise may push the economy back into recession (1) meaning that benefits spending may increase. (1) Indirect taxes tend to be regressive (1) because low income groups spend a higher proportion of their income. (1) Rising indirect taxes may have a direct impact on inflation (1) damaging growth and jobs illustrated with diagram. (1)</p>	<p>12</p>	<p>AO1 3 AO2 3 AO3 2 AO4 4</p>

Question	Answer	Mark allocation	Assessment objective
	<p>Cutting government spending (Max 8 from cutting G)</p> <p>Cutting capital spending</p> <p>Cuts on major infrastructure projects will reduce government's outgoings (1) meaning that the gap between G and T is smaller. (1) May also mean lower maintenance costs in the future. (1)</p> <p>But</p> <p>May damage potential growth. (1) May not be easy to cut for practical (already half-built) reasons. (1) May reduce AD, causing losses and therefore increasing benefit payments (1) and reducing income tax/VAT payments. (1)</p> <p>Cutting current spending</p> <p>Cuts in regular payments for public sector salaries and other running costs cut the government's outgoings (1) reducing the gap between G and T (1). Current spending forms the majority of the government's outgoings. (1)</p> <p>But</p> <p>Difficult to reduce because of the need to maintain essential services. (1) May damage merit goods (1) and therefore increase inequalities. (1) May reduce AD, causing losses and therefore increasing benefit payments (1) and reducing income tax/VAT payments (1) cuts in education/training may damage future productivity. (1)</p> <p>Cutting transfer payments (benefits/pensions)</p> <p>Social protection is a big area of government spending, so cutting it will save money (1) therefore reducing the gap between G and T (1) may also create incentives to work (1) helping to increase the government's tax base. (1)</p> <p>But</p> <p>May be very unfair on low income groups (1) reducing welfare/increasing inequality. (1)</p> <p>Keynesian stimulus (Max 6)</p> <p>QE/cutting interest rates may increase AD (1) explained. (1) As a result tax base may rise via income tax and VAT (1) and government spending may fall as a result of reduced benefit payments.(1)</p> <p>But</p> <p>Monetary stimulus may not be very effective because of liquidity trap (1) and low confidence levels. (1)</p> <p>Allow other valid points which are plausible answers to the question.</p> <p>Max 8 without evaluation.</p>		

Question	Answer	Mark allocation	Assessment objective
<p>6 1</p>	<p>What factors determine the level of consumption in the economy?</p> <p>Real income levels/economic growth (1): Rising GDP levels will reduce unemployment and increase incomes (1) therefore consumers have higher disposable incomes and will spend more, increasing consumption (1) consumption is a function of current income/marginal propensity to consume. (1)</p> <p>Interest rates(1): Falling interest rates create a disincentive to save/incentive to borrow (1) also reduce mortgage repayments, increasing discretionary income (1) falling interest rates may cut incomes of savers, reducing consumption.</p> <p>House/Asset prices (1): Rising house/asset prices can increase confidence/wealth effect (1) also this may allow equity withdrawal. (1)</p> <p>Tax cuts (1): Cuts in income tax increase disposable income (1) cuts in VAT reduce price levels, increasing consumption. (1)</p> <p>Changes to benefits/NMW (1) increase disposable income (1) and thus increase consumption.</p> <p>Availability of credit (1): If banks don't have funds available then consumers will be unable to borrow (1) developed with reference to current events in the UK. (1)</p> <p>Confidence (1): If confidence is low, consumers may not wish to borrow/spend. (1)</p> <p>Max 3 for each explained point. Max 2 in total for identifying factors.</p> <p>Level 3 responses require at least one fully developed (3 mark) point.</p>	<p>8</p>	<p>AO1 3 AO2 3 AO3 2</p>

Question	Answer	Mark allocation	Assessment objective
<p>6 2</p>	<p>With the use of a diagram discuss the extent to which a rise in consumption is good for an economy?</p> <p>Good for the economy:</p> <p>Rising consumption will increase AD (because it is a major component) therefore real GDP will rise, creating economic growth. (2)</p> <p>Rising consumption will create increased demand for UK firms meaning that jobs will be created, reducing unemployment. (2)</p> <p>Rising consumption will increase GDP increasing the government's tax base and reducing benefits spending, improving the budget deficit. (2)</p> <p>Rising consumption will increase firms' profits, increasing investment and boosting productivity. (2)</p> <p>Effective diagram (1) used to support the points made. (1)</p> <p>Not so good for the economy:</p> <p>If economy is close to capacity then inflation may rise (1) because resources start to run short, easier to increase prices etc. (1)</p> <p>Rising consumer spending may worsen the trade balance (1) because many consumer goods/components etc. come from abroad, increasing imports. (1)</p> <p>It may depend on how the rising consumption is financed (1) falling savings/rising debt may create problems in the longer term. (1)</p> <p>Depends how much consumption rises by (1) if AD rises by no more than potential growth/AS then problems are less likely/if AD rises by more than potential growth, inflation is more likely.(1)</p> <p>Max 8 without evaluation (Reversible). Max 10 without a diagram.</p>	<p>12</p>	<p>AO1 3 AO2 3 AO3 2 AO4 4</p>

Question	Answer	Mark allocation	Assessment objective
7 1	<p>Using a diagram show how a fall in the value of the pound might be caused by a widening trade deficit and explain how the weaker pound might improve the price competitiveness of UK firms.</p> <p>Causing a fall in the value of the pound (4):</p> <p>Widening trade deficit implies that:</p> <p>Imports are rising which will increase the supply of £s on the forex market (1) As a result there is excess supply of sterling on the forex market at the original exchange rate. (1) Illustrated using an accurate diagram. (2)</p> <p>Exports are falling which will reduce the demand for £s on the forex market.(1) As a result there is excess supply of sterling on the forex market at the original exchange rate. (1) Illustrated using an accurate diagram. (2)</p> <p>Max 2 without a diagram</p> <p>Improved price competitiveness (4):</p> <p>UK exports look more competitive on world markets. (1) Because UK goods and services are cheaper in terms of foreign currency (or words to that effect). (1)</p> <p>Rising import prices cause UK domestic goods to look more competitive relative to imports. (1) Because the weaker pound means that it costs more to buy a given quantity of imports (or words to that effect)/import prices are higher in sterling terms etc. (1)</p>	8	AO1 3 AO2 3 AO3 2

Question	Answer	Mark allocation	Assessment objective
7 2	<p>Discuss whether a sharp fall in the value of the pound will be beneficial for the UK economy.</p> <p>Beneficial (up to 8):</p> <p>Cheaper exports and more expensive imports should lead to a rise in the value of exports and a fall in the value of imports. As a result the trade balance should improve. (2)</p> <p>Lower export prices make UK goods/tourist destinations more price competitive thus raising demand/employment and GDP. (2)</p> <p>Higher import prices reduce imports benefiting home producers in terms of employment/profits/output etc. (2)</p> <p>Buying assets in the UK is cheaper (1) and thus FDI may increase raising AD (1).</p> <p>Profits made overseas by UK firms increase in terms of pounds (1) explained. (1)</p> <p>Well integrated AD/AS diagram on either side. (2)</p> <p>Not beneficial (up to 8):</p> <p>If the demand for imports is price inelastic, then the value of imports might actually rise, which is quite likely for commodity imports such as oil etc. (2).</p> <p>Likewise, exports might not rise if export markets are in recession etc. (2)</p> <p>Export/Import sales might not respond to lower price in the short term because of pre-existing contracts, loyalty and non-price factors. (2)</p> <p>Max 4 for:</p> <p>Rising import prices may drive up the costs of UK manufacturers and final goods (1) hence causing cost push inflation within the economy (1) and offsetting some of the benefits of the weaker pound (1) causing job losses in import-dependent sectors. (1)</p> <p>Possible risk of demand pull inflation as a result of rising exports (1) but max 2 in total for understanding that inflation will rise through C push or D pull. Up to 2 further marks for understanding why inflation might be undesirable.</p> <p>OR UK firms dealing with overseas travel by UK citizens suffer (1) due to expensive foreign holidays driven by the weaker £ (1).</p> <p>Reversible answer. Maximum 8 without evaluation.</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

Level 1 1 - 3	Limited knowledge of relevant economic theory. One or two basic points made.
Level 2 4 - 6	Good understanding of subject matter with some application. Relevant points made and developed using examples/diagrams and appropriate economic theory.
Level 3 7 - 8	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

Level 1 1 - 4	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.
Level 2 5 - 8	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.
Level 3 9 - 12	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.