AQA

Mark scheme

January 2002

GCE

Economics

Unit ECN2

Advanced Subsidiary Economics

January 2002   **ECN2/1**

This component is an objective test for which the following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1.	B	14.	C
2.	A	15.	A
3.	B	16.	D
4.	C	17.	B
5.	B	18.	C
6.	D	19.	D
7.	C	20.	A
8.	A	21.	B
9.	D	22.	C
10.	C	23.	D
11.	B	24.	D
12.	A	25.	A
13.	D		

Advanced Subsidiary Economics

MARK SCHEME

General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme for the data response questions:

(i)   **An 'issue' based approach.** The mark scheme for parts (a) and (b) of the questions adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer. Marks awarded for development should take into account the Quality of Written Communication used by candidates as indicated on page 16 of this mark scheme.

(iii)   **A 'levels' approach.** This approach is used for marking part (c) of the questions. The mark scheme summarises the information required to answer the question, but without attaching marks to particular issues. Marks should be awarded according to whether the answer displays the skills indicated by the four Mark Band Descriptors or Levels of Skill included in the mark scheme. The Mark Band Descriptors are set out on page 15. When using a levels mark scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is also shown on page 16. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description.

APPLYING THE 'LEVELS' MARK SCHEME

Levels of Response Mark Band Descriptors

In part (c) of the data questions approximately half the marks are available to award to candidates who demonstrate that they can 'evaluate economic arguments and evidence, and make informed judgements'. It is not necessary that the candidate identifies a wide range of issues. As indicated below the Quality of Written Communication used should be taken into account when awarding the marks.

Level 1
Few, if any, relevant issues are recognised. Economic concepts and principles are not adequately understood or applied to the question. No satisfactory analysis or evaluation. A poorly organised response which generally fails to answer the question. Descriptions and explanations lack clarity. Spelling, punctuation and grammar are likely to be poor. There is little use of economic terminology.

0 to 5 marks

Level 2
One or more relevant issues are recognised. An attempt is made to use basic economic concepts to answer the question but the candidate's explanation may be confused. There will be some attempt to present alternative points of view. The answer is likely to be poorly organised and is unlikely to have a clear structure. The candidate demonstrates some ability to spell commonly used words and to follow the standard conventions of punctuation and grammar. Some use of economic terminology is made but this is not always applied appropriately.

6 to 10 marks

Level 3
Two or more relevant issues are recognised. The candidate has made a reasonable attempt to apply economic concepts and ideas. A satisfactory understanding of some basic economic concepts and theories is demonstrated. The candidate will present alternative points of view and there will be some attempt to evaluate the issues, arguments and/or data. Some logic and coherence in the organisation of the answer. The candidate is generally able to spell commonly used words and usually follows the standard conventions of punctuation and grammar. Some descriptions and explanations are easy to understand but the answer may not be expressed clearly throughout. There is some evidence of the correct use of relevant economic terminology.

11 to 15 marks

Level 4
Two or more relevant issues are identified. Good understanding of some basic economic concepts and models is demonstrated. The candidate is able to apply these concepts and models to help answer the question. An appreciation of alternative points of view is shown. Satisfactory use is made of evidence and/or theoretical analysis to evaluate the issues/arguments identified and to support conclusions. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed. The answer is well organised. Descriptions and explanations are usually clearly expressed. Appropriate use is made of relevant economic terminology.

16 to 20 marks

THE KEY TO BE USED WHEN USING THE 'LEVELS' MARK SCHEME

D   Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.

I   Where a relevant **ISSUE** is raised by the candidate.

K   Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.

Ap   Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.

A   Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.

E   Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

QUALITY OF WRITTEN COMMUNICATION

The Mark Band Descriptors, which are used for assessing part (c) of the questions, incorporate statements which relate to the Quality of Written Communication used by the candidates.

However, it is also important to assess Quality of Written Communication **whenever** candidates produce answers using continuous prose. When applying an issue based mark scheme, examiners must take into account the following when deciding how many marks to award for development:

    (i)   use of appropriate form and style of writing to organise relevant information clearly and coherently;

    (ii)   use of specialist vocabulary, where appropriate;

    (iii) legibility of handwriting;

    (iv) accuracy of spelling, punctuation and grammar.

EITHER

1.

Total for this question: *35 marks*

(a)   Using the charts in **Extract A**, describe the main features of the performance of the United Kingdom economy between 1997 and 2000.   *(5 marks)*

For candidates who:

describe the rate of real GDP growth e.g. stating that the rate of growth of GDP fell between 1997 and 1998 before rising after the first quarter of 1999, also for stating that for most of the period the rate of real GDP growth was above the *'widely agreed'* trend rate of 2.5% whilst recognising that it dipped below trend in 1999;   **Up to 2 marks**

describe the changes in the current account of the balance of payments e.g. recognising that the account was in surplus in 1997 but that it deteriorated and that there was a large deficit in 1999 and 2000;   **Up to 2 marks**

describe the changes in inflation – candidates who state that the general trend in RPIX was downwards should be awarded 1 mark. The second mark is available for candidates who compare the actual rate with the government's target of 2.5%;   **Up to 2 marks**

describe the change in the unemployment rate i.e. that there was a persistent and significant fall from over 6% to around 3.5% (figures are not essential).   **1 mark**

Maximum of 5 marks

(b)   Explain the likely impact of "high private consumption growth" (**Extract A**, lines 4 – 5) on:
(i)   the unemployment rate;   *(5 marks)*
(ii) the current account of the balance of payments.   *(5 marks)*

(i)

For candidates who:

define the term 'unemployment rate';   **1 mark**

state that consumption is a major component of aggregate demand;   **1 mark**

explain the link between aggregate demand and output;   **Up to 2 marks**

explain the relationship between output, employment and unemployment;   **Up to 2 marks**

consider possible multiplier effects of increases in consumer spending;   **Up to 2 marks**

use an appropriate AD/AS diagram that is correctly drawn and labelled.   **Up to 2 marks**

In general, candidates are likely to conclude that rising consumer spending will increase output and employment and hence reduce unemployment. However, candidates should be rewarded if they indicate circumstances when this may not happen e.g. if the economy is operating at a high level of capacity utilisation and the rise in demand leads to inflation or is spent on imports.   **Up to 2 marks**

Maximum of 5 marks

(ii)

For candidates who:

explain what is meant by the *current account of the balance of payments*;   **1 mark**

explain that some of the increase in consumption is likely to be spent on imported consumer goods;
                                                                                    Up to 2 marks

explain the significance of the income elasticity of demand for imports;   **Up to 2 marks**

explain that the rise in domestic production is likely to stimulate an increase in the demand for imported raw materials, components and semi-finished goods, and capital equipment; **Up to 2 marks**

consider how rising consumption might affect firms' desire to export if domestic demand is rising and buoyant;   **Up to 2 marks**

consider how rising consumer spending might affect inflation and hence competitiveness;
                                                                                    Up to 3 marks

explain why an increase in consumer spending that leads to either higher imports and/or a fall in exports will cause the current account to deteriorate;   **Up to 2 marks**

explain that higher domestic demand might increase the profits of foreign owned multi-national enterprises located in the United Kingdom. This may lead to an increase in the outflow of profits on the current account of the balance of payments.   **Up to 2 marks**

                                                                                    Maximum of 5 marks

(c)	Discuss the likely effects on the economy of improving Britain's productivity performance.
	(20 marks)

The issues identified below are intended to provide an indication of some of the areas that might be discussed. Candidates can only be expected to consider a few of these issues in the time available. There are several clues in the articles and the answers of the majority of candidates are likely to focus on developing these issues (i.e. growth, jobs and living standards). To get into the top mark band candidates must show a clear understanding of some of the benefits of raising productivity and recognise that, at least in the short run, there may be some costs. To achieve more than 13 marks they must demonstrate the ability to evaluate the issues raised by the question. Candidates who confuse production with productivity are unlikely to move out of level 2.

Issues and areas for discussion include:

- explanation of the term *productivity gap;*
- explanation of what is meant by *the underlying rate of growth of the economy;*
- discussion of the benefits of raising the underlying rate of growth of the economy;
- reasons why higher productivity is likely to raise living standards;
- the benefits for employment;
- the reasons why higher productivity may cause more unemployment in the short run;
- the benefits in terms of inflation;
- benefits in terms of competitiveness and the balance of payments;
- factors that affect productivity e.g. the capital stock, technology, skills, management etc.;
- the opportunity cost of measures designed to improve productivity e.g. more investment may mean a short term reduction in current consumption;
- an overall assessment of the effects of an improvement in productivity.

USE THE LEVELS MARK SCHEME ON PAGE 15.

                                                                                    Maximum of 20 marks

OR

2.

Total for this question: *35 marks*

| (a) (i) Define the term 'savings ratio'. | *(2 marks)* |

For candidates who:

state that the savings ratio is usually defined as: savings as a percentage of income.

Other definitions may also be acceptable e.g. Total Savings divided by Total Income. Only a fairly
basic definition is needed for **both** marks.   **2 marks**

However, a statement such as "amount of a person's income that is saved" should only be awarded 1
mark. No marks for just stating MPS but 1 mark if MPS is defined.

If a candidate states that it is the same as the 'average propensity to save' without further explanation
then **1 mark** should be awarded.

Maximum of 2 marks

| (a) (ii) Describe the main changes in the savings ratio between 1985 and 2000. | *(3 marks)* |

For candidates who:

state that overall, between 1985 and 2000, the savings ratio fell from around 9% to just over 3%;
1 mark

accurately describe the general movements in the savings ratio between 1985 and 2000 e.g. it fell
rapidly between 1985 and 1989; rose rapidly in the early 90s to reach its highest level in 1994; the
general trend from 1995 to 2000 was for the savings ratio to fall;
accept the statement that the ratio was relatively high and stable between 1994 and 1998.
Up to 2 marks

use figures to identify the magnitude of the fluctuations in the savings ratio.   **1 mark**

Maximum of 3 marks

(b)	Identify and explain **three** factors that are likely to have caused a fall in the savings ratio in the second half of the 1990s. *(10 marks)*

It is expected that candidates will give reasons why the savings ratio has fallen. However, if they provide plausible explanations of why the savings ratio might increase they should still be rewarded.

Candidates are likely to draw on the information in the passage and identify **three** of the following factors:

- the healthy state of the United Kingdom economy (**accept** the effects of low unemployment);

- the increase in household wealth (**accept** either rising house prices **or** the strength of the stock market);

- the impact of lower (nominal) interest rates;

- household confidence in relation to personal finances.

Candidates who identify **other factors** that might have influenced the savings ratio since 1995 should also be rewarded (e.g. the attractiveness, or otherwise, of present savings schemes such as the recently introduced ISAs).

Credit should be given to candidates who explain why the savings ratio might be expected to increase in the longer term e.g. changes in welfare provision and the impact of an ageing population.

Give credit to candidates who provide plausible arguments that explain why the savings ratio might have fallen even if they do not reflect what has actually happened e.g. rising unemployment reduces people's ability to save, or higher interest rates on mortgages reduce people's ability to save.

Candidates should be given **1 mark** for each separate factor identified and up to **3 additional marks for each explanation** of the way in which the factor might be expected to influence the savings ratio.

Maximum of 10 marks

> (c)   Do you consider that the fall in the savings ratio in the late 1990s has been beneficial to the UK economy? Justify your answer.   *(20 marks)*

Candidates will be expected to consider several ways in which changes in the savings ratio might affect the performance of the United Kingdom economy. The articles provide some clues and to get into the top mark band candidates will need to identify possible advantages and disadvantages of a low (or high) savings ratio. The best answers **might** also include some discussion of the difficulties that can result from a highly volatile savings ratio. It is likely that the overwhelming majority will concentrate on the demand side effects of changes in the savings ratio. However, candidates who consider possible supply side effects should also be rewarded e.g. high savings providing funds (freeing resources) for investment and hence affecting the long term growth rate of the economy.

Answers that do not include any evaluation should be awarded a maximum of 13 marks.

The issues identified below are intended to provide an indication of some of the areas that might be discussed. Candidates can only be expected to consider a few of these issues in the time available.

Issues and areas for discussion include:

- indicators of economic performance e.g. unemployment, inflation, the balance of payments, growth, productivity, etc;

- the way in which changes in the savings ratio affect aggregate demand;

- the effect of changes in aggregate demand on employment and unemployment;

- the importance of the multiplier;

- the impact of a change in aggregate demand on inflation when the economy is operating at its normal capacity level of output;

- the application of AD/AS analysis and associated diagrams;

- the effect of a change in aggregate demand upon the current account of the balance of payments;

- the significance of the income elasticity of demand for imports (or the MPM);

- the problems associated with a volatile savings ratio;

- aggregate demand and its effects on the underlying growth rate e.g. producer confidence, investment in physical and human capital;

- possible links between savings and investment e.g. the availability of funds, freeing resources for the creation of capital assets, etc;

- use of evidence to support the arguments presented based on data and/or their knowledge of developments in the economy;

- an overall assessment of the effects of the fall in the savings ratio on the economy.

USE THE LEVELS MARK SCHEME ON PAGE 15.
Maximum of 20 marks