



ASSESSMENT and
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GCE

Economics

Unit ECN2

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Registered address: Addleshaw Booth & Co., Sovereign House, PO Box 8, Sovereign Street, Leeds LS1 1HQ
Kathleen Tattersall: *Director General*

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

ECN2/2

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 data response 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 at the end of this general introduction.
- (ii) **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 below. 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 below. 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 response 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 become 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 recognised. 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**

1 (a) Using the graph, compare the rates of inflation in the European Union, the USA and Japan between 1991 and 2000. *(5 marks)*

For candidates who:

state that over the whole period inflation in Japan was lower than in the USA and Europe **1 mark**

state that between 1991 and 1995 inflation was higher in the European Union than the USA **1 mark**

state that between 1995 and 2000 inflation was higher in the USA than the European Union **1 mark**

make other accurate comparisons (**1 mark each**) e.g. between 1991 and 1994 inflation was falling in each area; after 1997 inflation in Japan continued to fall and become negative (deflation) whereas inflation in the USA and the European Union inflation rose towards the end of the decade **up to 2 marks**

quote figures to indicate the magnitude of the differences in inflation between the European Union, the USA and Japan **up to 2 marks**

Candidates who **persistently** confuse ‘falling prices’ with a ‘fall in the rate of inflation’ should be awarded a **maximum of 3 marks**.

Candidates who describe the changes in inflation in each of the economies without making any comparisons should be awarded a **maximum of 3 marks**.

MAXIMUM FOR 1 (a) = 5 MARKS

1 (b) Explain how aggregate demand can be controlled by the use of:	
(i) monetary policy;	(5 marks)
(ii) fiscal policy.	(5 marks)

Candidates should be awarded **1 mark** for explaining what is meant by aggregate demand. Allow $AD=C+I+G+(X-M)$ or total spending.

Candidates can also be awarded **up to 2 marks** for relevant use of AD/AS diagrams that are correctly drawn and labelled. **1 mark** for an accurate diagram that is not used by the candidate.

These marks are separate from the marks indicated below, but overall **no more than 10 marks can be awarded for part (b)**.

(i) For candidates who:

explain what is meant by monetary policy (the use of interest rates is sufficient); **1 mark**

explain how changes in interest rates affect AD (mechanisms include: incentive to save, cost of borrowing for consumers and firms, mortgage repayments, the effect on asset prices and wealth, the impact on the exchange rate – **maximum of 3 marks for each mechanism explained**); **up to 5 marks**

state that monetary policy can include targeting the supply of money and credit and explain how this can affect AD; **up to 3 marks**

state that monetary policy can include influencing the exchange rate and explain how this can affect AD through the impact on the competitiveness of United Kingdom exports and foreign imports. **up to 3 marks**

Candidates who just state that higher interest rates will reduce AD and/or lower interest rates will increase AD, without further explanation, should be awarded **1 mark**.

Maximum for 1b(i) = 5 marks

(ii) For candidates who:

explain what is meant by fiscal policy (i.e. the use of government spending **and** taxation to affect the economy); **1 mark**

explain how taxation can be used to affect AD (candidates might explain the effect of changes in the overall level of taxation **and/or** the impact of changes in a particular tax); **up to 3 marks**

explain how the government spending can be used to affect AD (candidates might explain the effect of changes in the overall level of government spending **and/or** the impact of changes in a particular type of government expenditure); **up to 3 marks**

explain the role of budget deficits and surpluses in affecting AD. **up to 3 marks**

Candidates who just state that lower taxes **and** increased government spending will increase AD (or vice versa) with no further explanation, should be awarded **1 mark**.

Maximum for 1b(ii) = 5 marks

MAXIMUM FOR 1 (b) = 10 MARKS

1 (c) Assess the view that policy aimed at achieving a high rate of economic growth will inevitably lead to inflation and a deficit on the current account of the balance of payments. (20 marks)

To achieve more than 13 marks for this part of the question candidates must show that they can **EVALUATE** the view expressed in the question.

Evaluation requires that the candidate is able to present the **arguments for and against** ‘the view that policy aimed at achieving a high rate of economic growth will inevitably lead to inflation and a deficit in the balance of payments’. They will need to **use theoretical analysis and/or evidence to judge the strength of the various arguments and to support conclusions**. It is expected that candidates will attempt to **bring together the various strands of the arguments** presented but any **overall conclusion may be tentative**. Candidates who recognise and show that they understand why the **effects might be different in the short run and the long run** are likely to demonstrate evaluative skills.

Issues and areas for discussion include:

- what is meant by inflation;
- what is meant by a deficit on the current account of the balance of payments;
- growth and aggregate demand (i.e. an increase in AD may result in an increase in actual growth, but any link with underlying growth is tenuous);
- growth, productive capacity and the ability to supply goods and services;
- actual growth (the rate of increase in output) and potential growth (the rate of increase in productive capacity);
- causes of inflation;
- why high growth might be expected to increase inflation (e.g. rapidly rising demand and its effects in both the goods and factor markets);
- why high growth may help to moderate inflationary pressures (e.g. increases supply and may help to moderate cost increases if accompanied by rising productivity);
- why high growth might lead to a deficit on the balance of payments (e.g. rapidly increasing demand and incomes may mean that spending on imports rises rapidly and that output is used to satisfy domestic demand rather than go for export);
- why high growth may not result in a deficit on the current account of the balance of payments (e.g. more output to satisfy domestic demand, growth may be accompanied by improvements in competitiveness);
- relationships between inflation and the balance of payments;
- the significance of the nature of growth (i.e. whether it just results from higher demand or a long run increase in productive capacity) and the likelihood of a conflict between policy objectives;
- the use of demand-side and supply-side policies to influence growth, and their effects on inflation and the current account of the balance of payments;
- use of anecdotal evidence to support the various arguments presented. (A brief account of recent events is acceptable. Don’t expect candidates to be able to provide a detailed, fully justified account in the time available to them.);
- an overall assessment of the view expressed in the question bringing together the various arguments.

Candidates should be rewarded for appropriate use of AD/AS diagrams that are correctly drawn and labelled.

Use the Levels mark scheme described earlier

MAXIMUM FOR 2 (c) = 20 MARKS

OR

2

Total for this question: 35 marks

2 (a) Using **Figures 1 and 2**, describe the growth of the Irish economy between 1990 and 2000. (5 marks)

For candidates who:

state that the figures show the rate of growth of output or productive capacity (i.e. the figures have the effects of inflation removed); **1 mark**

state that the average rate of growth was higher in the second half of the decade than during the first half of the decade; **1 mark**

indicate the magnitude of the difference in the annual average rate of growth (e.g. 4.5% compared to 8.4% **or** 'almost double the rate'); **up to 2 marks**

state that the rate of growth fell slightly between 1997 and 1998 before rising each year between 1998 and 2000; **up to 2 marks**

state that this is an exceptionally high rate of growth for a developed economy in Europe (particularly in the second half of the 1990s); **1 mark**

support the statement that the Irish economy has grown very rapidly by perhaps quoting growth rates for other European Union countries (e.g. candidates might compare with the underlying rate of growth in the United Kingdom of between 2.25% and 2.5%). **1 mark**

Candidates who **persistently** confuse 'falling output' with a 'fall in the rate of growth' should be awarded a **maximum of 3 marks**.

MAXIMUM FOR 2 (a) = 5 MARKS

2 (b) Explain **three** factors that have contributed to the rapid growth of the Irish economy. (10 marks)

Candidates who explain economic growth as an increase in output with no reference to productive capacity or aggregate supply should be awarded **1 mark**.

Candidates who explain that economists normally define economic growth as the rate at which the productive potential of an economy increases should be awarded **2 marks**.

Equally, discussion of the difference between actual (short run) and potential (long run) growth should be awarded **2 marks**.

Award a **maximum of 2 marks** for the discussion/explanation of what is meant by economic growth.

For candidates who explain the contribution to rapid growth made by:

the rapid increase in the supply of labour; **up to 4 marks**

the rise in foreign investment; **up to 4 marks**

improved access to the markets of the European Union; **up to 4 marks**

investment in human capital and/or growth in the supply of skilled labour. **up to 4 marks**

Other factors, not mentioned in the data, may also be rewarded provided they are plausible, that is, they affect growth and they may be relevant to the Irish economy e.g. technological change, improvements in productivity, European Union funding (**BUT** be aware of repetition). **up to 4 marks each**

Candidates can be awarded a **maximum of 9 marks** if they have identified (and explained) only two different factors, and a **maximum of 5 marks** if they have identified one factor.

Up to 4 marks can be awarded for discussion/explanation that considers the contribution of aggregate demand to economic growth. (In this case, candidates are likely to be discussing actual rather than underlying growth.)

Candidates who just identify **three** factors, without any satisfactory explanation of their contribution to economic growth, should only be awarded **2 marks** (for **two** relevant factors, without any satisfactory explanation, award **1 mark**).

Candidates can, however, also achieve up to **two further marks** if they have provided a good explanation/discussion of what is meant by economic growth (see above).

MAXIMUM FOR 2 (b) = 10 MARKS

2 (c) Assess the possible effects of a continuation in the rapid growth of average wages for the performance of the Irish economy. (20 marks)

When answering this question, candidates are likely to focus on the effects of a continuing rapid growth in average earnings for inflation, unemployment, growth and the balance of payments, although other related issues might be considered (e.g. competitiveness, the housing market and manufacturing industry).

To achieve more than 13 marks for this part of the question, candidates must show that they can **evaluate** the various effects of a continued rapid growth of average earnings for the Irish economy.

Evaluation requires that candidates recognise that the effect of a rise in average wages is not always easy to predict, and that they present alternative points of view. For example, candidates might show that they understand how an increase in average wages may boost demand and reduce unemployment, but that it may also reduce competitiveness and lead to job losses. They will need to **use theoretical analysis and/or evidence to judge the strength of the various arguments and to support conclusions**. It is expected that candidates will attempt to **bring together the various strands of the arguments** presented, but any **overall conclusion may be tentative**. Candidates who recognise and show that they understand why the **effects might be different in the short run and the long run** are likely to demonstrate evaluative skills.

Issues and areas for discussion include:

- factors to be considered when assessing the performance of an economy (e.g. inflation, unemployment, growth and the balance of payments);
- rising average wages, productivity growth and unit costs;
- rapidly rising average wages and competitiveness;
- why rapidly rising average wages are likely to cause inflation (demand and cost factors may be considered);
- why rapidly rising average wages may not be accompanied by inflation;
- rapidly rising average wages and unemployment;
- the implications for economic growth (both actual and potential growth may be discussed);
- why rapidly rising average wages are likely to lead to a deterioration in the balance of payments position;
- circumstances where rapidly rising average wages may not lead to a deterioration in the balance of payments position;
- the possible effects of rapidly rising average wages on other aspects of economic performance;
- the use of the data from the passage to support the arguments presented and to evaluate the effects of a rapid growth of average wages on the Irish economy (e.g. productivity is expected to continue to grow faster than competitors, the economy is close to full employment etc.);
- a few candidates might use their own knowledge of the Irish economy to support the arguments presented and to evaluate the effects of a rapid growth of average wages;
- an overall assessment of the likely effects of rapidly rising average wage rates on the Irish economy.

Use the Levels mark scheme described earlier

MAXIMUM FOR 2 (c) = 20 MARKS