AQA

ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme
January 2004

GCE

Economics

Unit ECN2

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**	**9.**	**C**
2.	**A**	**10.**	**C**
3.	**D**	**11.**	**C**
4.	**B**	**12.**	**B**
5.	**A**	**13.**	**C**
6.	**D**	**14.**	**A**
7.	**A**	**15.**	**B**
8.	**D**		

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 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 on page 6 of this mark scheme.

(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 five Mark Band Descriptors or "Levels of Skill" included in the mark scheme. The Mark Band Descriptors are set out on page 5. 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 shown on page 6. 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 may be poor. There is little use of economic terminology.

0 to 3 marks
Mid-Point: 2 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 may be some attempt to present alternative points of view but any attempt at evaluation is superficial. 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.

4 to 6 marks
Mid-Point: 5 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. There will be some attempt to present alternative views and to evaluate the issues, arguments and/or data. There is 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.

7 to 9 marks
Mid-Point: 8 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.

10 to 12 marks
Mid-Point: 11 marks

Level 5

Three or more relevant issues are identified. Good understanding of basic economic concepts and models is demonstrated throughout. The candidate is able to apply these concepts and models to help answer the question. Clear understanding of alternative points of view is shown. Good 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 clearly expressed. Appropriate use is made of relevant economic terminology.

13 to 15 marks
Mid-Point: 14 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   INFLATION   **Total for this question:** *25 marks*

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1 (a)   Using the data in **Extract A,** compare the main changes in the rates of inflation for goods and
        services for the period 1994 to 2002.   (*4 marks*)

Award one mark for each valid point made such as:

- the divergence between the rates of inflation for the two sectors grew over the period;

- the persistent inflation in the service sector up to 2002 contrasts with the rate of inflation in the
  goods' sector which hovers around zero from 2000 and eventually becoming negative;

- fluctuations in the rate of inflation have been greater in the goods sector than in the service sector.

Candidates who do not provide an overview or confuse a fall in the rate of inflation with a fall in the
price level, should be awarded **a maximum of 2 marks**.

MAXIMUM FOR PART (a) 4 MARKS

1 (b) Explain how interest rates might "help to control inflation" (**Extract B,** line 14).   *(6 marks)*

For candidates who:

define inflation:	**1 mark**
state that interest rates will affect AD (1) and outline the components of AD, perhaps in an equation format (1):	**Up to 2 marks**
explain how interest rates may affect AD, and hence inflation, by referring to the impact of interest rates on such things as the price of loans, the cost of consumer credit and mortgages, decisions to save and invest:	**Up to 3 marks per relationship explained**
explain other relationships and the relevance to inflation e.g. interest rates and exchange rates:	**Up to 3 marks per relationship explained**
use an AD-AS diagram, for example, to show the impact on the price level and output as the AD curve moves to the left or right:	**Up to 3 marks**

Of course, candidates may refer to cuts in interest rates, but are more likely to refer to increases, given that the question refers to the use of interest rates to control inflation. Either approach is equally valid.

While reference to the data to illustrate any of the above points should be given due credit, candidates who simply copy/list points from the last paragraph of Extract B without further elaboration should be awarded **a maximum of one mark.**

MAXIMUM FOR PART (b) 6 MARKS

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1 (c) Using the data and your economic knowledge, evaluate the view that reductions in firms' production costs have been more significant than the control of aggregate demand in achieving low inflation in the UK economy.   *(15 marks)*

It is likely that the better candidates will ***successfully*** link their answer for part (b) to the requirements of part (c) i.e. avoid extensive repetition. The data offer considerable guidance on what could be discussed on the cost side and it is expected that candidates will be able to develop these points, relate them to the importance of demand-management, and arrive at an appropriate conclusion. Where candidates develop a supply-side answer when dealing with cost issues, it must have adequate focus on the issue of production costs to be given credit, e.g. the way in which research and development can lead to technological change and lower unit costs.

Issues and areas for discussion include:

- definition and explanation of low inflation;
- the distinction between cost-push and demand-pull inflation without necessarily the explicit use of these terms;
- costs of production of firms, perhaps distinguishing those costs which might be more significant for manufacturing compared to those for service activities;
- the relevance of costs to pricing decisions and hence potentially to inflation;
- the components of aggregate demand;
- ways of influencing aggregate demand, perhaps including one or more of: monetary, fiscal, exchange rate policies; consideration of earnings growth;
- the role of the MPC;
- influences on the demand for goods and on the demand for services;
- the impact of technology (IT and production technology) directly on costs and indirectly via productivity improvements;
- falling inflation > expectations of inflation weakening further > potential impact on certain costs (e.g. lower wage costs as pay claims come to reflect lowering expectations; suppliers of inputs to other firms moderating or postponing price increases);
- the impact of competition on prices in the privatised sectors such as gas, electricity and telecommunications, prices which become costs to other firms;
- falling transport costs making international sources of inputs more viable;
- reduction in trade barriers causing more intense competition between suppliers;
- the world slow-down causing falling commodity prices;
- the general impact on costs expected from globalisation;
- economies of scale more significant in the goods sector than in services, allowing unit costs to fall more readily;
- the importance of effective demand-management in controlling inflation and hence creating a climate of confidence in the business world which will encourage more investment and R&D, helping to reduce unit costs further via improved efficiency and productivity;
- the downward pressure on costs possibly bringing a cure to any inflation problem over the long term rather than just short term control;
- the experience of the UK economy in recent years, to help support a conclusion;
- an overview of the issues raised.

Candidates should be rewarded for use of diagrams that are correctly drawn.

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

Evaluation:

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support conclusions, if they are to be awarded more than 7 marks.

Candidates who make a genuine attempt at evaluation should be well rewarded. They should not be awarded marks above Level 3 if evaluation does not go beyond the superficial. However, within this constraint there should be scope to award the more implicit evaluation i.e. where there is some evidence of judgements having been made by a candidate as to what is relevant/not relevant to include.

To gain Level 4 or 5 there needs to be more explicit evaluation in terms of evidence of critical/informed comment on issues raised, the ability to make judgements and to draw conclusions from the material presented in the answer.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c) 15 MARKS

OR

2   ECONOMIC GROWTH   **Total for this question:** *25 marks*

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2 (a) Using **Extract C**, compare economic growth in the major economies of the world for the period
        1998 to 2003.   *(4 marks)*

Award one mark for each valid point made such as:

• throughout the period, the US achieves the highest rate of economic growth of all the major
  economies, while Japan has the worst growth performance;

• of all the economies shown, only Japan experiences negative growth;

• with the possible exception of 2002 (if the forecast proves to be correct), the UK and the Euro area
  had similar rates of economic growth;

• a comparison of the actual and forecast figures, perhaps making reference to the likely
  inaccuracy/optimism of the forecasts for 2002/2003 (given what will be known by candidates
  sitting the paper in January 2004).

Candidates who do not provide an overview or who confuse a fall in the rate of growth with negative
economic growth should be awarded **a maximum of 2 marks**.

MAXIMUM FOR PART (a) 4 MARKS

2 (b) Explain the possible effects on the UK economy of "strengthening aggregate demand"
(**Extract D**, line 6).   *(6 marks)*

For candidates who:

outline the components of AD, perhaps with the help of an equation (1), and state that changes in any one of the components can affect GDP (1):	**Up to 2 marks**
state that the effects will depend on the extent to which, and how rapidly, AD strengthens, and the response of the supply-side, perhaps drawing a distinction between short run and long run effects:	**Up to 3 marks**
use an AS-AD diagram to illustrate changes in AD in relation to a particular AS condition:	**Up to 3 marks**
explain the possible effects of strengthening AD in the economy e.g. the impact on:	**Up to 3 marks per example explained**

- short term economic growth;
- employment/unemployment;
- inflation;
- household savings and hence on consumption;
- business investment;
- exports/imports, the Balance of Payments on current account;
- the exchange rate.

While reference to the data to support the above should be given due credit, candidates who only copy/list brief (albeit appropriate) references without development should be awarded a maximum of **one mark**.

MAXIMUM FOR PART (b) 6 MARKS

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2 (c) Using the data and your economic knowledge, evaluate the importance of supply-side policies to the achievement of higher economic growth in countries such as the UK.   *(15 marks)*

It is likely that the better candidates will ***successfully*** link their answer to part (b) to the requirements of part (c) i.e. avoid extensive repetition of their explanation of demand-led growth. Certain leads can be taken from Extracts C and D (for example, references to welfare and labour market reforms in C, the promotion of enterprise and innovation in D), and developed using their own knowledge. Candidates can be expected to convey the nature of supply-side reforms, and their importance in allowing economic growth to be achieved without the accompanying problems such as inflation and balance of payments deficits. Within this, some discussion of demand management can be expected also.

Issues and areas for discussion include:

- economic growth;
- actual and trend growth;
- the significance of the output gap where it exists;
- the importance to some supply-side policies of there being a favourable economic climate created by effective demand-management policies;
- the meaning/relevance of 'boom and bust' – the likely short term nature of demand-led growth and potential problems;
- the nature of supply-side policies with reference to issues such as incentives, mobility, flexibility, competition and competitiveness;
- the medium term/long term nature of many of the supply-side policies;
- the relevance of supply-side policies to continuous economic growth;
- production possibility and AS-AD analysis;
- specific supply-side policies where reference to actual policies introduced might be expected:
  - welfare reform;
  - tax policy;
  - competition policy;
  - privatisation;
  - productivity;
  - technology (R&D);
  - investment;
  - education and training;
  - labour market reform;
- the current/recent UK situation of economic growth accompanied by low inflation and falling unemployment, perhaps with an historical perspective, with discussion of macro-economic conflicts;
- the need to coordinate AD growth with supply-side improvements;
- an appropriate conclusion e.g. the importance of supply-side improvements in raising trend growth and allowing the achievement of continuous economic growth, but not neglecting the importance of well-managed growth of AD.

In the raising of issues, and given the nature of the data, candidates may well refer to economies other than the UK and these references should be given due credit.

The issues identified are intended to provide an indication of some of the points that might be discussed and candidates can only be expected to consider a few of the issues in the time available.

Evaluation:

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support conclusions, if they are to be awarded more than 7 marks.

Candidates who make a genuine attempt at evaluation should be well rewarded. They should not be awarded marks above Level 3 if evaluation does not go beyond the superficial. However, within this constraint there should be scope to award the more implicit evaluation i.e. where there is some evidence of judgements having been made by a candidate as to what is relevant/not relevant to include.

To gain Level 4 or 5 there needs to be more explicit evaluation in terms of evidence of critical/informed comment on issues raised, the ability to make judgements and to draw conclusions from the material presented in the answer.

USE THE LEVELS MARK SCHEME ON PAGES 5 & 6

MAXIMUM FOR PART (c) 15 MARKS

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