



General Certificate of Education

Economics 5141

ECN2 The National Economy

Mark Scheme

2006 examination – January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

AQA Advanced Subsidiary Economics

January 2006

ECN2/1

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

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

Advanced Subsidiary Economics**January 2006****ECN2/2****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 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 5 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 4. 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 5. 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 10 marks

Mid-Point: 9 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.

11 to 13 marks

Mid-Point: 12 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.

14 to 15 marks

Mid-Point: 15 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 ECONOMIC OUTLOOK

Total for this question: 25 marks

1 (a) Using the data in **Extract A**, compare real GDP growth and unemployment forecasts for the USA, Japan and the Euro area during the period 2003 to 2005. (4 marks)

Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data):

- the USA is forecast to have the highest GDP growth, the Euro area the lowest;
- only the Euro area sees a rise in the rate of growth of real GDP over the period;
- the Euro area is showing the most significant increase over the period in the rate of growth of GDP, the USA the biggest fall in the rate of unemployment;
- the unemployment rate is forecast to be highest in the Euro area, lowest in Japan;
- all three areas are forecast to have a fall in the rate of unemployment over the period;
- any other relevant comparison; **as the above range of points indicate, reward comparisons made within each category or between the two categories where the candidate is attempting to relate the two variables.**

A maximum of 1 mark may be awarded if there is no comparison and a maximum of 2 marks if there is no use of statistics or if a candidate confines the comparison to just one indicator.

If the candidate simply trawls through the data, award a maximum of 2 marks.

A maximum of 3 marks may be awarded where there is evidence of an overview having been made even though parts of the answer give the impression of a trawl through the data.

MAXIMUM FOR PART (a) 4 MARKS

1 (b) Explain **two** ways in which a world recovery might ‘help start a recovery in European economies’ (Extract B line 7). (6 marks)

For candidates who:

define the term ‘recovery’

1 mark

explain ways in which world recovery might stimulate recovery in European economies, e.g.

by stimulating trade and allowing exports to increase from European economies to world markets. Candidates might then develop their explanation by referring to the multiplier process triggered by exports. They could also refer to the rising demand for imports by European economies as incomes rise. This increased demand for imports from the rest of the world will then further stimulate world recovery;

other explanations include:

improved business confidence and rising expectations leading to more investment;

improved consumer confidence leading to falling savings and rising consumption;

an improved rate of growth of employment, leading to increased spending power;

increased in-flow of FDI

up to 4 marks per factor explained

make appropriate use of diagrams, e.g. AD/AS, PPF

for AD/AS diagram: for correct labelling of axes:

1 mark

for labelling of curves:

1 mark

for coordinates:

1 mark

for PPF: for axes labelled correctly:

1 mark

for curve, correctly labelled:

1 mark

for showing a movement of an economy nearer to the PPF:

1 mark

up to 3 marks

If more than two factors are explained, award marks to the two best explanations.

If only one factor is considered, award a maximum of **5 marks**.

While reference to the data should be given due credit, candidates who do not go beyond direct reference to the data (e.g. simply copying Extract B) should be awarded a maximum of **1 mark**.

MAXIMUM FOR PART (b) 6 MARKS

1 (c) Using the data and your economic knowledge, evaluate the impact which ‘a series of increases in oil prices’ (**Extract C**, lines 5 and 6) might have on the performance of economies such as the UK.
(15 marks)

Extract C offers good guidance on what might be discussed and it is anticipated that candidates will be able to develop and evaluate these points and/or others and arrive at an appropriate conclusion.

Evaluation

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

Candidates who make a genuine attempt at evaluation should be well rewarded. In the context of this question they might, for example, argue that the impact may well depend on how gradual or how rapidly oil prices rise; the nature of the government’s response, e.g. cutting duty on diesel/petrol; whether the impact will be so great in, what is now, much more of a service-orientated economy than it was, say, in the 1970s; the extent to which oil price rises will contribute to more general inflation; whether rising exports in the expected world recovery will help finance a higher import bill, and so alleviate the adverse impact of higher import prices on the balance of payments and the exchange rate.

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward more implicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 or more marks)**, there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements, and the ability to draw conclusions from the material presented in the answer.

Candidates should not be awarded more than **12 marks** if there is no reference to the data.

Issues and areas for discussion include:

- oil as a cost of production and hence the possibility of cost-push inflation
- different sectoral impacts
- the impact on the economic cycle
- the consequences for economic growth
- the effects on the balance of payments and the exchange rate, given the UK’s position as an exporter and importer of oil
- the impact on employment
- the importance of assessment in terms of the **extent** of any price increases
- the extent of the impact in a service-orientated economy
- energy efficiency and energy conservation
- investment in alternative forms of energy
- the government’s direct response to oil price increases, e.g. cutting fuel duty or postponing a planned increase in the duty
- the government’s fiscal response to any impact on the economic cycle
- the impact on the government’s finances
- the Bank of England’s response
- the significance, if any, of world recovery
- the impact on confidence and expectations

(Cont.....)

Also give credit for:

- use of diagrams, correctly drawn
- references to the UK and/or other economies
- an overview of the issues raised; a final judgement

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.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (c) 15 MARKS

OR

2 UK DEBT

Total for this question: 25 marks

2 (a) Using Extract D , compare the changes in the base rate of interest with those in the rate of inflation for the period January 1997 to January 2004. <i>(4 marks)</i>
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Award up to 2 marks for each valid point made (one mark for identification and one mark for supporting reference(s) to the data):

- base rate never falls below 3.5%, inflation never quite reaches this level;
- base rate has greater volatility;
- the two rates show some divergence 1997-8, as base rate rises, inflation falls, but some convergence 2001-2003 as the RPIX rises and base rate falls;
- both base rate and the inflation rate decline taking the period as a whole, base rate much more so.

A maximum of 1 mark may be awarded if there is no comparison and a maximum of 2 marks if there is no use of statistics.

If the candidate simply trawls through the data, award a maximum of 2 marks.

A maximum of 3 marks may be awarded where there is evidence of an overview having been made even though parts of the answer give the impression of a trawl through the data.

MAXIMUM FOR PART (a) 4 MARKS

2 (b) Explain **two** ways in which interest rate rises might help ‘to control aggregate demand’
(**Extract E**, line 8).

(6 marks)

For candidates who:

define the rate of interest **or** aggregate demand

maximum 1 mark

explain ways in which interest rate rises might control aggregate demand, e.g.

less use of credit by consumers causing their demand for goods and services to fall (C will decline), putting upward pressure on unemployment. As this takes hold, spending power will fall further, as will the inclination to borrow, leading to further falls in consumption. Investment, as another component of aggregate demand, may also decline. Candidates may refer to a downward multiplier effect.

other explanations might include:

less investment by businesses because of higher borrowing costs and the possible damage done to business confidence;

exchange rate appreciation leading to higher demand for imports and lower demand for exports;

a greater proportion of disposable income saved;

more expenditure on mortgages so that other types of spending may have to be limited.

up to 4 marks per factor explained

make appropriate use of diagrams, e.g. AD/AS

1 mark

for AD/AS diagram: for correct labelling of axes
for labelling of curves
for coordinates

1 mark

1 mark

up to 3 marks

If more than two factors are explained, award marks to the two best explanations.

If only one factor is considered, award a maximum of **5 marks**.

While reference to the data to support the above should be given due credit, candidates who do not go beyond direct reference to the data (e.g. simply copying phrases) should not be awarded more than **1 mark**.

MAXIMUM FOR PART (b) 6 MARKS

2 (c) Using the data and your economic knowledge, evaluate the significance of increasing levels of consumer borrowing for UK macroeconomic performance. (15 marks)

The extracts offer good guidance on what might be discussed and it is anticipated that candidates will be able to develop and evaluate these points and/or others and arrive at an appropriate conclusion.

Evaluation

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

Candidates who make a genuine attempt at evaluation should be well rewarded. In the context of this question they might, for example, argue that the point referred to in the data is a fundamental one, i.e. that it is the ability to make repayments which is all-important but, equally, that no one can predict the extent to which such repayments may change for those facing variable interest rates on loans; the state of the supply-side will be significant as debt creation fuels aggregate demand; the purpose of the borrowing may be of importance and whether it is leading to asset creation; growing debt must be seen in the context of persistently low inflation; if deflation is a very real threat, should the willingness to borrow and spend be welcomed rather than condemned?

Candidates should not be awarded **above Level 3** if evaluation does not go beyond the superficial. However, within this constraint there is scope to reward more implicit evaluation, i.e. where there is some evidence of judgements having been made by candidates as to what are relevant/irrelevant issues.

To gain **Levels 4 or 5 (11 or more marks)**, there needs to be more explicit evaluation, perhaps along the lines suggested above, and clear evidence of critical/informed comment on issues raised, the ability to make judgements and the ability to draw conclusions from the material presented in the answer.

Candidates should not be awarded more than **12 marks** if there is no explicit reference to the data.

Issues and areas for discussion:

- the nature of the debt being created, e.g. houses v consumer durables
- macroeconomic performance criteria
- economic growth
- inflation
- deflation
- the balance of payments
- the exchange rate
- employment/unemployment
- debt in relation to other factors affecting performance, e.g. oil prices, economic cycles around the world
- the possible government fiscal response to rising debt and its impact
- the Bank of England's response and its impact, e.g. on the housing market
- the impact on confidence, especially if 'media-hype' begins to take effect

Also give credit for:

- an overview of the issues raised; a final judgement
- use of diagrams, correctly drawn
- references to the UK and/or other economies

(Cont.....)

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.

USE THE LEVELS MARK SCHEME ON PAGES 4 & 5

MAXIMUM FOR PART (c) 15 MARKS